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DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION:
FOOD AND AGRICULTURAL DEVELOPMENT

Trends in the international market for agricultural and tropical products, developments in the liberalization of international trade in agricultural and tropical products, and follow-up to the section on agriculture of the International Development Strategy for the Fourth United Nations Development Decade

Report of the Secretary-General

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I. INTRODUCTION

1. In its resolution 1991/53 of 26 July 1991, the Economic and Social Council requested the Secretary-General, in consultation with the World Food Council (WFC), the United Nations Conference on Trade and Development (UNCTAD) and the Food and Agriculture Organization of the United Nations (FAO), to submit to the General Assembly, at its forty-seventh session, an updated comprehensive report on trends in the international market for agricultural and tropical products and developments in the liberalization of international trade in agricultural and tropical products, taking into account the share of developing countries in such trade and the possible adverse short-term effects on net-food-importing developing countries, and on the follow-up to the section on agriculture of the International Development Strategy for the Fourth United Nations Development Decade (General Assembly resolution 45/199 of 21 December 1990, annex).

2. The present report is submitted in response to that request and updates information provided in the earlier report (E/1991/89). In section II, recent trends in world production and trade of agricultural and tropical products are reviewed, taking into account the share of developing countries in such trade, the short-term prospects for international markets, including food security, are analysed and the implications of changes in Eastern Europe's agricultural sector for world food trade and developing countries are discussed. Section III then deals with recent developments concerning the liberalization of trade, including developments in the Uruguay Round of multilateral negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), focusing in particular on the implications for developing countries. In the final section a number of issues are considered as follow-up to the section on agriculture of the International Development Strategy for the Fourth United Nations Development Decade.

II. RECENT DEVELOPMENTS IN WORLD PRODUCTION AND TRADE OF AGRICULTURAL AND TROPICAL PRODUCTS

3. The volume of world food and agricultural production fell in 1991, the first global decline since 1983. Despite this decline and the continued slow-down in global economic activity, the volume of world agricultural trade increased in 1991 faster than in previous years, and outpaced the growth of trade in other merchandise. Increased import requirements by countries experiencing production shortfalls, particularly China and the former Union of Soviet Socialist Republics, accounted for much of the expansion in trade.

4. The general pattern of world production and trade in agricultural products remains characterized by the continuing high dependence, in both relative and absolute terms, of many developing countries on the production and export of agricultural products. Compared to the industrialized countries, agriculture in the developing countries is a more important part of the economic structure. Agriculture accounts for about 15 per cent of gross

domestic product (GDP) in developing countries as a whole (9 per cent in Latin America and the Caribbean, 22 per cent in East Asia, 33 per cent in South Asia and 34 per cent in sub-Saharan Africa), compared to a share of only around 2 per cent in the GDP of countries members of the Organisation for Economic Cooperation and Development (OECD). The aggregate figures for developing regions mask the fact that for the majority of countries, including in particular the low-income countries, agriculture accounts for more than 50 per cent of monetary GDP. These shares are also reflected in the distribution of labour. More than 60 per cent of the labour force of developing countries (Africa, 69 per cent; Latin America, 27 per cent; Near East, 41 per cent; and Far East, 61 per cent) derived their income from the agricultural sector, compared with 6 per cent in developed market economy countries in 1989. The greater dependence of developing countries on agricultural production translates into a high dependence on agricultural exports. For the majority of developing countries, the share of agricultural products in total merchandise exports ranges from 50 per cent to 100 per cent.

5. While developing countries are highly dependent on exports of tropical agricultural products, they are also dependent as a group, with a few exceptions, on imports of temperate agricultural products - that is, basic foodstuffs such as cereals, dairy products, meat and edible oils. Total food imports of developing countries totalled nearly $61.2 billion in 1990 (see table 1). The gross food imports of net food-importing developing countries accounted for about 80 per cent of this amount, while the net food imports of such countries totalled around $37 billion. The net food imports of low-income food-deficit countries totalled approximately $5 billion. Developing country net exporters registered net exports of about $29 billion in 1990.

Table 1. Aggregate food trade of developing countries, 1990 a/

(Millions of United States dollars)

	Gross food imports b/	Gross food exports	Net food imports
Developing countries (155)	61 210.7	53 465.3	7 754.4
Net exporters (52)	13 585.6	42 374.8	-28 901.0
Net importers (103)	47 625.1	11 090.5	36 646.4
Low-income food deficit countries c/	22 493.9	17 569.1	4 924.8
World	236 192.8		

Source: Food and Agriculture Organization of the United Nations.

Note: Negative sign (-) indicates net exports.

a/ Data rounded.

b/ "Food" is defined by FAO as all products that are considered edible and contain nutrients in their raw or processed forms. For present purposes, the following commodities have been excluded: cocoa beans and products and other tropical beverages, fish and fishery products, feeding stuffs, alcoholic beverages, tropical fruits and spices, and live animals.

c/ Includes all food-deficit countries with per capita income below the level used by the World Bank to determine eligibility for International Development Association assistance (i.e., $1,195 in 1990), which in accordance with the guidelines and criteria agreed to by the Committee on Food Aid Policies and Programmes of the World Food Programme should be given priority in the allocations of food aid.

A. Global and regional trends in production and trade

1. Production

6. Agricultural production at the aggregate world level experienced in 1991 its first global decline since 1983. Whereas world agricultural production had increased by 2.3 per cent in 1990, in 1991 it fell to -0.2 per cent. The decline in food production, to -0.6 per cent, was greater (see table 2). This outcome was due mainly to declines in production in North America, Australia and, more strikingly, in the former USSR. Among the developing regions, the increase in African production of 4 per cent was faster than that of other regions and the best performance of the African region in recent years. The Near East was the only developing region that experienced a production decline in 1991.

Table 2. Annual changes in food and agricultural production

(Percentage)

	1988/89	1989/90	1990/91	Average annual change 1988-1991
	Food			
Africa	2.8	1.7	4.1	2.86
Far East	4.3	4.0	2.1	3.46
Latin America	1.9	0.7	0.9	1.66
Near East	-6.0	8.3	-0.1	0.73
Total developing countries	2.9	3.3	1.9	2.70
North America	-11.1	3.6	-2.1	4.20
Oceania	-2.0	1.7	-1.6	0.60
Europe	1.4	-1.2	-0.8	-0.20
EEC (12)	1.5	-0.5	0.8	0.60
USSR	3.4	0.2	-14.0	-3.46
Total developed countries	4.5	0.5	-3.9	0.37
World	3.5	2.1	-0.6	1.67
	Agriculture			
Africa	2.7	1.5	4.0	2.73
Far East	4.0	3.9	3.0	3.63
Latin America	1.3	1.0	0.6	0.96
Near East	-5.7	7.6	-0.2	0.57
Total developing countries	2.6	3.3	2.3	2.73
North America	-9.8	4.6	-1.7	4.23
Oceania	-1.1	3.0	-0.9	0.33
Europe	1.3	-1.3	-0.8	-0.26
EEC (12)	1.5	-0.5	0.9	0.63
USSR	3.1	0.1	-13.5	-3.43
Total developed countries	4.5	0.9	-3.7	0.40
World	3.2	2.3	-0.2	1.77

Source: Food and Agriculture Organization of the United Nations.

7. The commodity composition of world agricultural output growth is noteworthy. World cereal output in 1991 was 4 per cent less than the previous year's record and below trend. The decline was registered mainly in the developed countries, reflecting sharp decreases in the United States of America (-10 per cent) and in the former USSR (-29 per cent). Production rose in Europe. Cereal production in the developing countries was almost unchanged from the previous year's level. Output fell in Asia (-2 per cent), largely on account of a drop in China (-3 per cent). By contrast, it rose in Africa (14 per cent), particularly in North Africa, and in South America (7 per cent). Overall output in the low-income food-deficit countries declined but, excluding China and India, aggregate production rose.

8. Among the major cereals, reduced area and yields have led to a fall in world production of wheat to 552 million tons, 8 per cent below the record level of 1990, while estimated production of coarse grains fell by 4 per cent to 814 million tons, on account of adverse growing conditions. World output of paddy declined by 1 per cent, to 516 million tons. The decline in cereal output was not compensated by any increase in other basic foodstuffs. The quantity of roots and tubers produced in 1991 was close to the 1990 level. The output of pulses, meat, fats and oils and sugar rose while milk production is estimated to have fallen 2 per cent.

9. Production of soybeans, copra, olive oil and butter declined in 1991 while there were increases for sunflower seed, groundnuts and especially rapeseed, cottonseed and palm oil. Increases were most significant in the developing countries of Asia. However, a much reduced crop of soybeans in South America left production of fats and oils in the developing countries higher by only 2 per cent while for oilmeals it was 4 per cent lower. In the developed countries, production of fats and oils was slightly lower but oilmeal production slightly higher. The European Economic Community (EEC) had a substantial increase in oilseed crops but reductions in output of butter and olive oil, while increases in North America were all but offset by lower production in the USSR and Eastern Europe.

10. World production of pulses increased slightly in 1991 to reach a record level. The increase was concentrated in production of pulses for human consumption, mainly beans, chickpeas, cow peas and lentils, whereas output of pulses for use in feed, especially feed beans and feed peas, stagnated.

11. With regard to other food products, although world coffee production in 1991 increased slightly above the 1990 level, it was 10 per cent above the 1986-1988 level. World cocoa production decreased by 8 per cent in 1991 from the previous year's level of 2.45 million tons. Global tea production increased slightly in 1991. Increases in tea harvest in India, Indonesia, Kenya and Sri Lanka offset reduction in Bangladesh and several African countries. World citrus availability in 1991 was considerably lower than in 1990 as a result of smaller harvests in several major producing countries, including Brazil, Spain and the United States. The world fish catch in 1991 was no larger than in 1990, when years of continuous expansion came to an end.

12. With regard to agricultural raw materials, world production of fibres was mixed. Global output of cotton grew by 9 per cent, while that of jute, kenaf and allied fibres declined slightly from the high level of the previous year because the production decrease in Bangladesh, China and Thailand offset a bumper crop in India. Wool production contracted in virtually all countries in 1991. In the hard fibres sector, global output of sisal and henequen remained at the reduced level of the previous year. Global coir brown fibre extraction declined in 1991, in contrast to sharply higher coir yarn production. World output of bovine hides and skins remained static while global production of sheepskins and goatskins increased somewhat in 1991. World tobacco production remained stable in 1991. Little change in output levels was recorded by major producing countries, except India. There was a recovery in world production of natural rubber in 1991. During 1991 developments in the world forestry industry were mixed. Severe reduction of output in Eastern Europe and in the former USSR contributed to a further decrease in global production of sawn wood and wood-based panels. However, the expansion of the pulp and paper sector, registered since 1983, continued despite a sharp decline of production in Eastern Europe. Wood pulp output increased only slightly, reflecting a further acceleration in the utilization of recycled waste paper for paper manufacture.

2. Trade and trends in market shares

13. Whereas the volume of world agricultural trade increased by an estimated 5 per cent in 1991 compared with 3.6 per cent in 1990 and a 4 per cent average for the 1980s, the value of world trade in agricultural products in 1991 was little changed over the previous year's level of $325 billion. The growth in volume was accounted for mainly by larger import requirements of the former USSR. The increase in world agricultural trade volume was offset by the decline in the index of world agricultural prices, resulting in an estimated increase in the value of world agricultural trade of about 1 per cent. The total value in 1991 of world trade in agricultural, fishery and forestry products combined is estimated to have increased slightly above the previous year's level of $457 billion. 1991 marks another year when expansion of trade exceeded expansion of output. In relation to aggregate world merchandise trade, the share of agricultural, fishery and forestry products in world trade rose slightly in 1991 but remains well below the levels of the previous decade.

14. Developed market economy countries continue to dominate world trade in agricultural products, accounting for more than 60 per cent of all exports and imports. Between 1970 and 1990, the share of developed market economy countries in world exports of food and agricultural raw materials increased from about 58 per cent to 68 per cent and from about 55 per cent to almost 70 per cent, respectively. In contrast, as can be seen from table 3, the share of developing countries in world agricultural exports has generally declined over the same period. As indicated in table 4, there have been losses in the world market share of developing countries in products such as tropical beverages, sugar, spices, cereals, meat and forestry products.

Table 3. Shares of various groups of countries in the values of world agricultural exports and imports

(Percentage)

		Developing countries	Developed market economy countries					Socialist countries		World
			EEC a/	United States of America	Japan	EFTA a/	Others	Total	Eastern Europe	Asia	
					All food items						
Exports	1970	33.5	28.6	14.9	1.5	2.6	10.3	57.7	7.0	1.8	100
	1975	29.7	31.6	18.1	0.7	2.1	10.1	62.6	5.7	2.1	100
	1980	29.6	34.7	18.0	0.8	2.2	9.3	64.8	4.1	1.5	100
	1985	32.4	35.3	14.1	0.8	2.4	9.1	61.7	3.7	2.3	100
	1986	31.2	29.3	12.0	0.7	2.5	8.1	62.5	3.6	2.7	100
	1987	28.1	42.6	11.8	0.7	2.7	8.0	65.7	3.4	2.7	100
	1988	27.1	41.7	13.6	0.6	2.4	8.1	64.5	3.2	2.6	100
	1989	27.3	41.4	14.3	0.6	2.4	8.0	66.6	3.2	2.8	100
	1990	26.1	43.9	13.2	0.5	2.7	8.0	68.3	2.9	2.9	100
Imports	1970	18.0	42.6	12.5	6.1	5.0	5.3	71.6	8.8	1.6	100
	1976	22.7	39.8	8.1	7.9	4.1	4.7	64.7	11.4	1.3	100
	1980	25.2	39.0	7.9	7.0	3.9	3.9	61.7	11.3	1.8	100
	1985	25.2	36.6	10.3	8.0	3.3	4.7	63.0	11.0	0.9	100
	1986	21.7	41.0	10.1	8.6	3.9	4.6	68.3	9.1	1.0	100
	1987	20.4	43.3	9.2	9.0	4.0	4.5	70.0	8.4	1.3	100
	1988	21.6	42.5	8.4	10.3	3.8	4.3	68.7	8.3	1.4	100
	1989	22.6	40.6	8.8	10.4	3.6	3.8	67.1	8.6	1.7	100
	1990	21.7	43.7	8.5	9.7	3.7	3.5	69.3	7.6	1.4	100

Table 3 (continued)

		Developing countries	Developed market economy countries					Socialist countries		World
			EEC a/	United States of America	Japan	EFTA a/	Others	Total	Eastern Europe	Asia	
					Agricultural raw materials						
Exports	1970	33.5	11.4	11.4	0.3	12.5	19.7	55.4	9.9	1.2	100
	1975	28.1	13.8	13.6	0.4	12.8	18.2	58.9	11.5	1.5	100
	1980	30.4	13.9	15.3	0.3	11.8	18.9	60.2	7.9	1.5	100
	1985	25.5	16.3	14.4	0.3	10.1	21.6	62.8	8.7	3.0	100
	1986	24.1	18.4	13.0	0.4	0.6	21.4	63.8	8.7	3.4	100
	1987	23.6	14.8	14.1	0.3	10.4	21.7	65.4	7.6	3.5	100
	1988	24.5	18.0	14.0	0.4	9.9	22.9	65.1	7.3	3.1	100
	1989	23.4	16.7	15.8	0.3	10.1	23.8	66.8	6.7	3.2	100
	1990	22.8	19.3	17.2	0.4	10.6	22.1	69.5	5.7	2.6	100
Imports	1970	11.4	42.0	9.3	16.7	4.0	4.2	76.3	11.3	1.0	100
	1975	14.4	39.4	9.0	16.2	4.7	4.4	73.7	10.5	1.5	100
	1980	15.7	39.4	7.9	18.3	4.3	3.8	73.8	7.4	3.2	100
	1985	18.7	35.7	11.2	15.2	4.4	4.4	70.9	7.8	2.5	100
	1986	18.2	37.7	10.5	14.0	5.1	4.3	72.4	6.8	2.6	100
	1987	18.4	37.7	9.8	16.4	5.2	3.9	73.0	6.2	2.5	100
	1988	18.4	37.1	9.7	16.9	5.0	3.7	72.4	6.3	2.8	100
	1989	19.4	36.8	9.6	18.1	4.5	3.0	72.0	5.7	2.9	100
	1990	20.7	39.7	9.1	16.6	4.6	3.0	73.0	4.0	2.3	100

Source: UNCTAD, Commodity Yearbook, 1992 (forthcoming).

(Footnote on following page)

(Footnote to table 3)

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a/ Prior to 1970, the members of EEC were Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands; the members of the European Free Trade Association (EFTA) were Austria, Denmark, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland. In 1970, Denmark, Ireland and the United Kingdom became members of EEC; in 1980, Greece, Spain and Portugal were added. EEC figures include intra-trade.

Table 4. Share of developing countries in the value of world agricultural exports, by product category

(Percentage)

1989/90	1979/80	1984/85
Cereals	12.7	12.1
Meat	12.2	11.5
Dairy products	1.7	2.4
Vegetable oilseeds and oils	35.5	39.1
Sugar	69.7	61.1
Tropical beverages	85.2	76.7
Spices	80.7	70.6
Tobacco, unmanufactured	40.2	47.0
Roots and tubers	42.5	42.9
Fruits	33.7	38.2
Nuts	56.4	54.2
Rubber, natural	97.7	95.0
Non-coniferous wood	70.1	64.5
Cotton	43.0	41.7
Jute and hard fibres and manufactures	78.1	78.0
Fishery commodities	37.4	40.9
Total agricultural exports	30.2	25.9

Source: FAO, Trade Yearbook and UNCTAD calculations.

15. A distinction should be made between those agricultural products that are produced chiefly by the developing countries (e.g., tropical products such as coffee, cocoa, tea, spices, bananas and natural rubber), and those that are also produced by or have close substitutes produced by the developed countries (e.g., cereals, meat, dairy products, fruit and vegetables, edible oils and sugar). The latter category, often referred to as temperate zone products, accounts for the bulk of world agricultural trade in value. The developed countries are the major exporters of these, apart from sugar.

16. On the import side, an important trend in developed country agricultural trade has been its decreasing share of world imports, particularly for temperate products. This trend reflects the fact that domestic production of many of these products has continued to expand in developed countries in response in particular to high levels of assistance, thus replacing potential imports. Intra-trade is increasingly the major source of such imports. The developing countries as a group are dependent, with a few exceptions, on imports of temperate agricultural products - that is, basic foodstuffs such as cereals, dairy products, meats and edible oils. In 1990, for example, out of gross food imports by developing countries amounting to nearly $62 billion, the net food imports of net-food-importing developing countries (more than 100 countries) totalled around $36 billion. Developed countries have traditionally been and still remain the major markets for the agricultural exports of the developing countries. However, these markets, increasingly protected in the 1970s and 1980s, have grown relatively slowly for such products. The growth in exports of agricultural products from developing countries to developed market economy countries has been much slower than in any other market. As a result, the developing country exports of such products received by developed market economy countries declined in the 1970s and 1980s.

B. Current situation and short-term prospects for international agricultural markets, including food security

17. International agricultural markets remained depressed in 1991. After a steep cyclical rise in prices on world markets in 1988 and 1989, the situation was reversed in 1990, with substantial falls in prices for wheat, sugar and dairy products, returning those markets to the depressed conditions that had prevailed prior to 1988. In 1991, international prices remained low in the first half of the year, although they increased to varying degrees for a number of products, such as cereals and dairy products, in the second half. Agricultural commodity prices declined on average 3 per cent in 1991.

18. Continuing recession in the economies of many countries reduced demand for many commodities. Also, changes in supply conditions were reflected in some large changes in price relative to 1990. Prices on the world market for sugar declined 27 per cent and wool prices declined 31 per cent. In contrast, rice prices regained former levels with a 10 per cent increase and fishery product prices continued to increase. World wheat prices rose sharply in the

second half of 1991, mainly reflecting a reduction of 8 per cent in global production and expectations of stronger import demand.

19. Among agricultural products of particular export interest to developing countries the downward trend in prices continued for coffee and cocoa in 1991 and by mid-1992 these beverages were trading at prices lower than any year since the early 1970s. There are still major stocks of coffee and cocoa, and exporting countries continue to seek ways to regulate the market, especially by strengthening international commodity agreements. Prices of tea, sugar, cotton, jute and hides and skins also declined substantially in 1991 and in the first quarter of 1992, although prices of tea, sugar and cotton have since risen somewhat. These and other price declines in 1991 reduced the overall level of prices paid for the agricultural, fishery and forestry exports of the developing countries by 6 per cent. For the developed countries the overall decline was 4 per cent.

20. In real terms, from the start of the 1980s to 1991, prices for commodities exported by developing countries fell 36 per cent while those for the developed countries fell 20 per cent. Estimates for 1991 show that the index of real prices of commodity exports of developing countries (deflated by the rise in the weighted average of the prices of manufactures and crude petroleum) fell to 64 per cent of its average level for the years 1979 to 1981. Commodities showing the largest declines in real prices included beverages, with a decline of 56 per cent; sugar, down 60 per cent; and natural rubber, down 48 per cent. By contrast, groups where prices had largely maintained their real value included fishery and forestry products and hides and skins. For the beverages, the price decline started in 1987 and has had serious consequences both for many growers of coffee, cocoa and tea and for countries with a high dependence on these exports.

21. Prospects for agricultural markets in 1992/93 are mixed and are expected to be influenced in particular by demand factors linked to the rate of world economic growth and to the size of harvests, in various regions of the world, that would have a bearing on world import demand. The existence of large stocks of coffee, cocoa and natural rubber is expected to continue to have a negative impact on their prices, while prices of some other commodities, such as cereals and oilseed products, would remain sensitive to the size of future harvests.

22. As regards world food security, the situation has deteriorated in several countries. Serious regional food supply problems persist, in particular in Africa. The worst drought for decades has devastated the main cereal harvest in southern Africa. Elsewhere in Africa, serious difficulties persist in Ethiopia and Somalia, food supplies remain tight in Liberia and Sierra Leone, while localized shortages are also reported in Togo and Zaire. Elsewhere in the world, grave difficulties persist in Iraq, and the food supply situation is critical in Yugoslavia. In the former USSR, food supply difficulties for vulnerable populations are persisting.

23. Estimates by FAO indicate that in 1991, at the global level, cereal consumption declined but nevertheless exceeded production so that global cereal stocks diminished in 1991/92. The direct consumption of cereals as food rose in aggregate but not in per capita terms, which were marginally lower worldwide and particularly so in a number of low-income food-deficit countries. Moreover, despite a 5 per cent increase in average per capita food use of cereals in these countries in the past decade, in almost half of them the estimated per capita consumption of cereals is less than it was a decade ago.

24. Tentative FAO forecasts for 1992 indicate an increase in world cereal production to 1.941 billion tons, 3 per cent more than in 1991. At the forecast level output would be below trend. Thus the expansion in the availability of cereals in 1992/93, that is opening stocks plus production, is forecast to be rather limited and no significant replenishment of stocks is foreseen. At the estimated level, carry-over stocks of cereals into 1992/93 would represent 18 per cent of the trend of consumption in 1992/93, a ratio that remains within the range that the FAO secretariat considers the minimum necessary to safeguard world food security.

25. Assuming that current production forecasts materialize, the global level of supplies should be adequate to meet expected utilization in 1992/93. However, the current production forecast is only tentative and a significant deterioration in crop conditions could have serious repercussions for global food security, the situation of which is already difficult because of several critical regional food shortages, particularly in Africa.

26. World trade in cereals in 1992/93 is forecast to rise marginally above the level in 1991/92, which was one of the highest volumes in recent years. The most noteworthy feature of cereal trade in 1992/93 is that while shipments to the developed countries are forecast to decline from 1991/92, to 73 million tons, the second lowest level since the mid-1970s, imports into the developing countries are forecast to reach a record in 1992/93. Imports into low-income food-deficit countries as a group are forecast to rise to a new peak of 65 million tons, 10 per cent higher than their estimated aggregate imports in 1991/92 and around 40 per cent more than in the mid-1980s. Most of the expansion in 1992/93 is expected in imports of coarse grains, particularly into the drought-stricken low-income food-deficit countries of southern Africa.

27. Shipments of cereal food aid during 1991/92 (July-June) are expected to total around 11.5 million tons, 0.5 million tons below the previous year. Developing countries will have received about 10.4 million tons of cereal food aid in 1991/92, which is about 300,000 tons less than the amount received during 1990/91 and well below the levels provided to those countries during some previous years. In the case of the low-income food-deficit countries, aid in cereals will cover about 15 per cent of their total cereal imports, slightly below the 1990/91 level but significantly lower than an average of 20 per cent in earlier years. While emergency needs are rising sharply, there has been no corresponding growth in the resources available for meeting such needs. At the same time, in addition to the food aid requirements of the traditional recipients, which have risen and are forecast to increase further

in 1992/93, substantial demands on food aid have occurred in the former USSR and Eastern European countries (see table 5). During 1991/92, these countries have received around 1.1 million tons of cereals and 200,000 tons of non-cereal food commodities.

28. To date, pledges to the 1992 International Emergency Food Reserve (IEFR) by 11 donors amount to 214,632 tons of food commodities, of which 193,234 tons were in the form of cereals and 21,398 tons of other foodstuffs (mainly vegetable oils, pulses and dried skim milk). These contributions to IEFR are entirely for multilateral channelling through the World Food Programme (WFP). To ensure the quickest possible initial response to new sudden food emergencies, the Committee on Food Aid Policies and Programmes (CFA) of WFP, at its thirty-second session in December 1991, decided to establish, on an interim basis, a cash fund within IEFR. The purpose of this Immediate Response Account is to facilitate the purchase and delivery of food commodities in response to sudden emergencies. A minimum annual target level of $30 million has been set in this respect. So far contributions to the account have reached $22 million.

29. In addition to IEFR contributions, 509,955 tons of cereals and 77,993 tons of other food commodities have been contributed so far in 1992 under the subset of WFP regular resources for meeting the requirements of protracted refugee operations.

30. As at April 1992, total pledges to the regular resources of WFP for the biennium 1991-1992 by 60 donors totalled $1,082,500,000, representing 72 per cent of the pledging target of $1.5 billion. In the previous biennium, pledges by 84 donors amounted to $1,198,400,000 (86 per cent of the pledging target of $1.4 billion).

Table 5. Volume of food aid and distribution of shipments

(Thousands of tons)

	1988	1989	1990	1991
		Total food aid		
	14 866 (100%)	10 975 (100%)	14 093 (100%)	13 715 100%)
Cereals	13 159	10 026	12 927	12 661
Non-cereals	1 707	1 041	1 166	1 054
		Distribution of shipments		
Developing countries of which:	14 866 (100%)	10 639 (96.9%)	11 553 (82%)	12 615 (92%)
Sub-Saharan Africa	4 539	2 781	3 207	4 128
North Africa/ Middle East	2 775	2 771	3 112	3 378
Latin America and the Caribbean	2 558	1 986	2 323	2 008
Asia and Pacific	4 994	3 101	2 911	3 100
Eastern Europe (including former USSR)	-	336 (3.1%)	2 540 (18%)	1 100 (8%)

Source: World Food Programme, Food Aid Information System (INTERFAIS), as at 13 July 1992.

C. Implications of changes in the agricultural sector in Eastern Europe for world food trade and for developing countries

31. The transition to a market economy has caused disruptions and changes in the agricultural sectors of Eastern European countries. Agriculture has played a relatively large role in the economy in Eastern Europe compared to Western Europe. In the late 1980s, the agricultural sector contributed more than 20 per cent of GDP in the former USSR and between 6 and 35 per cent in the other Eastern European countries. This compares to an average of 3.4 per cent in Western Europe.

32. Most Eastern European countries, excluding the former USSR, have achieved high levels of self-sufficiency in cereals and other foods, and Hungary's net exports have made an important contribution to the country's balance-of-payment situation. This has been achieved despite great inefficiencies in the food system, notably in the livestock and food processing sectors, which have placed heavy demands on crop production. The former USSR, however, has not been able to offset these inefficiencies through increased domestic production. Once a net exporter, it has become one of the world's largest cereal importers. Owing mainly to the drastic cutbacks in sectoral investments, inputs and subsidies, and the uncertainties resulting from the political situation, the region's agricultural production has been contracting.

33. Whether those countries will become net exporters or importers of agricultural products, once the structural adjustment is absorbed, will have a tremendous impact on world agricultural markets. The outlook for the future net food trade position of the region is determined by short- and longer-term changes in the demand patterns. In the current situation, a significant short-term improvement in production is unlikely. However, even without a recovery of agricultural production, a number of countries in the region could follow the early reforming countries and significantly reduce food imports or increase exports, principally at the expense of domestic consumption.

34. As far as developing countries are concerned, for those countries that, until recently, traded with Eastern Europe under special arrangements, the abrupt reduction of food imports has meant heavy export losses at present. For other exporting developing countries, the decline in commercial demand from Eastern Europe not only reduces their export opportunities to those markets but also, because of the effect of falling world market prices for products for which Eastern Europe has been a substantial net importer (e.g., wheat and coarse grains, meat, sugar, dairy products and the protein field), would indirectly contribute to a decline of their export earnings. In addition, for developing countries, in the short run the granting of most-favoured-nation and generalized system of preferences treatment, and the association agreements between EEC and Czechoslovakia, Hungary and Poland, have increased competition with Eastern European countries on OECD markets, particularly Western Europe, without any offsetting gains from trade creation with Eastern Europe.

35. Developing countries have also expressed concern that Western support for the transition process in Eastern Europe could result in a diversion of financial and aid flows from them. As noted above, it is evident with regard to food aid that some diversion of aid has occurred in recent years. A number of developing countries have also been affected by the drastic decline of development assistance from Eastern Europe. For them and other countries, an early resumption and expansion of Eastern European aid will be important. Changing patterns of financial flows at commercial terms, with substantial amounts going to Eastern Europe, may have negative effects, especially in Africa and Latin America and the Caribbean. In general, however, a successful transformation of the economies in Eastern Europe is likely to contribute to a stronger global economy from which developing countries would also benefit.

III. DEVELOPMENTS IN THE LIBERALIZATION OF INTERNATIONAL TRADE IN AGRICULTURAL AND TROPICAL PRODUCTS

A. Continuing high levels of protection of national markets

36. Little progress was made in 1991 towards reducing trade-distorting measures in the agricultural sector. Protection of national markets for agricultural commodities, especially in the more processed products, remains high in many developed countries. It is now six years since the launching of multilateral negotiations to reform agriculture in the Uruguay Round of GATT. Although there is now a better awareness and recognition of the problems of the agricultural sector, little has been done so far in concrete terms to achieve the objectives of agricultural policy reform. Measures taken by national Governments to support and protect the agricultural sector remain largely intact. Those measures include internal support policies (subsidies in various forms to domestic producers), the effect of which is to raise domestic production higher than it would otherwise be, thereby reducing domestic demand for imports or increasing export availability, border protection (tariffs, tariff escalation and non-tariff measures) to limit import access, and export subsidies (which distort competition among exporting countries).

37. Whereas national support policies for agriculture, including subsidy programmes, were originally motivated by a desire to retain a minimum domestic agricultural capacity for national food security reasons and to provide assistance to rural areas in fulfilment of social policy objectives, policies of support and protection for the agricultural sector pursued in many developed countries have led to structural overcapacity in those sectors. Furthermore, in order to bolster domestic support policies, Governments have instituted a variety of trade measures - ranging from conventional tariffs to a complex array of non-tariff measures, including variable levies, minimum prices, global and bilateral quotas, "voluntary" export restraints, import prohibitions, sanitary and phytosanitary regulations - to restrict imports of agricultural products. In addition, countries that are exporters of agricultural products have used export measures in support of domestic policy objectives, resorting in particular to export subsidies to reduce stocks of surplus products.

38. As a result of governmental policies in the agricultural sector, some developed countries that were previously major importers have become increasingly self-sufficient in agriculture or have gone beyond the stage of self-sufficiency to become large-scale exporters of a wide range of agricultural products. An important result has been not only to reduce, or shut off, the traditional markets for developing countries but also to displace developing countries on world markets, often through subsidized exports. Subsidized exports from developed countries have affected developing country exports of cereals, meat, dairy products, oilseeds and vegetable oils and sugar, especially to third countries.

39. A major feature of the structure of tariffs and non-tariff measures affecting agricultural exports of developing countries, in particular tropical products, is the tendency for tariffs to escalate with the stage of processing and for non-tariff measures to weigh more heavily on commodities in their processed forms. Many products of export interest to developing countries are particularly hard hit by this escalation of trade barriers, which has had a negative impact on the efforts of developing countries to increase their participation in world agricultural trade in processed products.

40. In 1991 the overall cost of the agricultural policies pursued by OECD countries, as measured by the sum of transfers from taxpayers (net of budget receipts from tariffs) and from consumers (through higher prices), rose to an estimated $321 billion, an increase of almost 5 per cent over the 1990 figure. The increase in 1991 was due to a 10 per cent ($13.5 billion) rise in transfers from taxpayers combined with a 3 per cent ($5 billion) increase in transfers paid by consumers. Budget revenues from import tariffs also increased by $4.5 billion.

41. For individual countries, total transfers in United States dollars in 1991 fell by more than 1 per cent only in Canada ($0.3 billion), Finland ($0.1 billion) and New Zealand ($0.02 billion), while the largest increases were estimated for Japan ($2.8 billion), the United States ($7.8 billion) and the European Economic Community ($3.5 billion).

42. Estimates of overall production support in OECD countries for specific commodities are given in table 6, expressed as a proportion of the sales receipts for each commodity. As will be noticed, in a number of OECD countries support is quite high (in excess of 50 per cent of sales receipts) for products such as cereals, oilseeds, sugar, dairy products and beef.

43. It is noteworthy that, in contrast to the high degree of support provided to the agricultural sector in industrialized countries, the general policy stance towards the agricultural sector in developing countries has resulted in substantial discrimination against agriculture. In many cases, domestic pricing and taxation policies have kept producer prices well below border prices. Current policy reforms being implemented by many developing countries include changes in the structure of incentives (price and non-price) and trade liberalization designed to bring domestic prices in line with border prices (see also sect. IV.B below).

Table 6. Net producer subsidy equivalents a/ for selected commodities and countries, 1979-1991

Commodity	1979-1986	1987	1989	1990	1991	1979-1986	1987	1989	1990	1991	1979-1986	1987	1989	1990	1991
	Australia					Austria					Canada				
Wheat	10	15	11	15	19	32	75	39	66	75	26	54	24	56	42
Coarse grains	7	10	8	10	9	26	62	37	39	35	32	47	25	30	39
Rice	25	24	21	23	23	..	..	..	..	..	..	..	..	..	..
Oilseeds	8	12	14	10	11	..	..	..	..	..	22	30	24	27	28
Sugar	9	20	16	16	15	58	75	67	71	77	25	18	16	19	22
Milk	31	31	32	35	36	47	59	51	67	66	66	79	71	82	83
Beef	11	12	11	11	11	44	89	52	53	55	32	48	34	35	41
Pork	5	5	4	5	5	9	33	15	28	33	12	13	23	13	16
Poultry	5	6	5	5	5	15	3	54	51	47	27	46	36	40	45
	EEC b/					Finland					Japan				
Wheat	32	61	27	43	61	62	82	78	67	84	96	103	95	98	103
Coarse grains	34	68	34	52	55	58	90	81	86	84	97	102	94	95	98
Rice	43	77	63	64	68	..	..	..	..	..	79	94	86	86	87
Oilseeds	49	75	61	72	67	60	77	81	88	98	82	79	62	54	62
Sugar	54	77	47	51	67	70	86	62	75	73	68	75	63	70	76
Milk	54	61	56	72	69	66	76	73	77	76	83	91	82	87	88
Beef	48	46	55	56	54	58	62	63	61	60	62	61	59	33	40
Pork	6	6	7	9	8	36	48	53	55	53	42	46	51	38	42
Poultry	20	22	26	29	18	46	56	52	56	58	17	13	12	12	12

Table 6 (continued)

Commodity	1979-1986	1987	1989	1990	1991	1979-1986	1987	1989	1990	1991	1979-1986	1987	1989	1990	1991
	New Zealand					Norway					Sweden				
Wheat	9	24	14	10	7	63	78	73	81	84	35	65	42	71	50
Coarse grains	10	5	5	3	..	77	83	83	90	86	29	48	53	73	57
Rice	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Oilseeds	..	..	..	..	..	..	..	..	..	..	36	42	61	68	63
Sugar	..	..	..	..	..	..	..	..	..	..	54	63	36	58	55
Milk	23	14	3	2	2	77	79	76	81	83	65	73	64	71	74
Beef	14	12	4	3	3	69	66	71	69	71	45	45	49	45	51
Pork	16	4	1	1	1	46	56	48	44	51	22	41	28	25	36
Poultry	32	46	29	35	26	25	42	55	46	50	26	36	39	28	35
	Switzerland					United States of America									
Wheat	72	85	78	81	84	29	64	26	43	50					
Coarse grains	74	91	83	83	83	21	46	28	21	26					
Rice	..	..	..	..		28	50	37	42	37					
Oilseeds	85	99	93	100	98	8	10	9	7	7					
Sugar	75	86	81	76	83	46	70	45	44	56					
Milk	73	84	75	86	85	63	67	53	64	58					
Beef	76	78	83	83	83	34	36	31	29	34					
Pork	45	62	42	62	62	7	7	7	6	6					
Poultry	79	83	83	87	85	8	34	10	10	10					

Source: OECD, Agricultural Policies, Markets and Trade: Monitoring and Outlook 1992 (Paris, 1992). Figures for 1990 are estimates; those for 1991 are provisional.

a/ Total assistance for a given commodity as a percentage of the total value of receipts from sales of commodity. Producer subsidy equivalent thus measures the value of transfers to farmers generated by agricultural policy.

b/ Excluding Portugal and Spain in 1979-1985.

44. In the area of external trade measures, progress in the developed countries in 1991 was limited to a few cases. In Sweden, the policy reforms begun in 1991 included the reduction of border protection through decreases in variable import levies, the complete abolition of export subsidies for some commodities and the phased abolition of other export subsidies over a three-year period. In the European Economic Community, no change was made in the system of variable import levies and export restitutions whereby the Community regulates its trade in agricultural products and insulates its farmers from external market forces. Unit export restitutions for the major exported products increased again in 1991 owing to a widening of the price gap because of lower world prices. Norway changed trade measures relating to apples and pears in 1990, following a GATT ruling, but otherwise made no significant changes in its trade measures. In Switzerland, the import tax on refined sugar was sharply increased; there was otherwise no change in the system of import restrictions and export subsidies which shelters Swiss producers from world market developments. For Austria, no changes in border measures in 1991 were reported. It is to be noted, however, that reductions in import restrictions for a few categories of agricultural products were agreed in several countries of the European Free Trade Association (EFTA) under the European Economic Area agreement.

45. In Canada, there were no improvements in 1991 in market access for supply-managed products. In addition, a rebate was introduced for manufacturers using dairy products that is intended to lessen the potential impact of the Canada-United States Free Trade Agreement on trade in dairy products. The United States continued to regulate its trade in a wide range of agricultural products by the use of voluntary restraint agreements, tariffs, import quotas or discretionary export subsidies. The sugar import quota was reduced by one third for 1991/92. During 1991, voluntary restraint agreements were concluded with Australia and New Zealand with respect to beef imports. Japan continued to move in the direction of replacing volume-based import measures, such as quotas, with price-based measure (tariffs), with the abolition of import quotas for beef and oranges. However, except in the case of beef, there has been no significant decrease in the gap between external and domestic prices. Australia and New Zealand continued their programmes of general tariff reductions, which will affect some imported agricultural inputs and, in the case of Australia, sugar and some horticultural products. In sum, in 1991, only Australia, Japan, New Zealand and Sweden had undertaken any significant reductions in border protection, and even among those countries the extent and scope of the improvements varied widely.

B. Recent developments in the Uruguay Round of multilateral trade negotiations

46. The Uruguay Round of multilateral trade negotiations has provided the framework since 1986 in which multilateral efforts are made to achieve agricultural policy reform under the General Agreement on Tariffs and Trade. The Round has now passed several deadlines which were set with a view to bringing the negotiations to a conclusion. It was initially scheduled to

conclude at the end of 1990. However, agreement could not be reached by then, particularly for agriculture, and the negotiations were extended. By late 1991, no agreement had been reached and on 20 December 1991 the Director-General of GATT advanced a package of reform proposals that might be used as a basis for concluding the negotiations. In January 1992, participating countries agreed that the draft Final Act submitted by the Director-General provided a basis for completing the negotiations, the objective then being to conclude an agreement by mid-April 1992. To date, agreement has not been reached but the proposals of the Director-General appear to provide the best available indication of the broad nature of possible final agreements.

47. Throughout the Round, the agricultural policies of the major trading countries, including EEC, have been a major factor in the negotiations. In late May 1992, EEC announced major changes to its Common Agricultural Policy (CAP) which could have a significant impact on the course of the Round. This section therefore focuses on the salient features of the draft final act for agriculture and the EEC reform of CAP.

1. The draft final act for agriculture

48. The draft final act for agriculture comprises four parts, namely, an agreement and a package of three related elements. Part A, entitled "Uruguay Round Agreement on Agriculture", describes the general framework of the reform process, including special safeguard measures, and provides for the establishment of a committee on agriculture. Part B is entitled "Agreement on Modalities for the Establishment of Specific Binding Commitments under the Reform Programme".

49. The main elements of the specific binding commitments in the areas of market access, domestic support and export competition are as follows:

(a) Market access:

(i) The conversion of non-tariff border measures into tariff equivalents (tariffication); the base period shall be the years 1986-1988;

(ii) All customs duties, including those resulting from tariffication, shall be bound;

(iii) Reduction by 36 per cent on a simple average basis of customs duties in equal instalments between 1993 and 1999, with a minimum rate of reduction of 15 per cent for each tariff line;

(iv) Maintaining current access opportunities and establishing minimum access opportunities of 3 per cent of domestic consumption for imported goods, rising to 5 per cent by the end of the implementation period;

(v) Safeguard provisions would apply to products subject to tariffication to allow temporary increases in import tariffs at times when there were large surges in import volumes or sharp falls in import prices;

(b) Domestic support:

(i) Reduction by 20 per cent of all domestic support measures in favour of agricultural producers with the exception of measures which have no, or at most minimal, trade distortion effects or effects on production (the so-called green box), in equal instalments from 1993 to 1999; the base period shall be the years 1986 to 1988;

(ii) Credit shall be allowed for reduction actions undertaken since the year 1986;

(iii) Reduction commitments shall be expressed in terms of aggregate measurements of support or of equivalent commitments;

(iv) The price support element would be measured as the difference between the internal administered price and a fixed 1986-1988 average external reference price that is indicative of world price, generally export parity for exporting countries and import parity for importing countries;

(c) Export competition: export subsidies shall be subject to budgetary and quantity reduction commitments, of 36 per cent and 24 per cent respectively, from 1993 to 1999; the base period shall be the years 1986 to 1990. There shall be an undertaking by each participant not to provide export subsidies otherwise than in conformity with the Agreement and with its commitments as specified in its schedule of export competition commitments.

50. Special and differential treatment would be accorded to developing and least developed countries under the three elements set out above, as follows:

(a) The least developed countries shall be exempt from the reduction commitments;

(b) The developing countries shall have the flexibility to apply lower rates of reduction commitments, although such commitments shall not be less than two thirds of the commitments above, and to implement the reductions over a period of up to 10 years;

(c) Some domestic support and export competition measures shall also be exempt from reduction commitments.

51. Part C, entitled "Decision by Contracting Parties on the Application of Sanitary and Phytosanitary Measures", establishes a multilateral framework of rules and disciplines to guide the adoption, development and enforcement of sanitary and phytosanitary measures so as to minimize their negative effects

on trade. A committee on sanitary and phytosanitary measures will be established to carry out the functions necessary to implement the provisions of this decision and to provide a regular forum for consultations.

52. Part D, entitled "Declaration on Measures Concerning the Possible Negative Effects of the Reform Programme on Net Food Importing Developing Countries", covers issues of food aid, the technical and financial needs of these countries to improve their agricultural productivity and infrastructure, agricultural export credit and arrangements to address short-term difficulties in financing normal levels of food imports.

53. The proposed cuts in tariff equivalents, internal support and export subsidies, if adopted rigorously, would result in a substantial liberalization of agricultural policies globally. However, the package has not yet been agreed to. Further, even if it is wholly or largely adopted, the package leaves some room for flexibility in implementation. From the perspective of countries that would need assurance of a safety net in the transition period, it is noteworthy that part D is framed in a manner that suggests a somewhat different binding character from the other parts, so that it could in reality be only a declaration of best intentions.

2. Reforms to the Common Agricultural Policy of the European Economic Community

54. As mentioned earlier, throughout the Uruguay Round negotiations, reform of the agricultural policies of major trading countries has been the major focus of attention and resistance in this regard has posed the most difficult problems in reaching agreement. The reforms to the Common Agricultural Policy agreed to by EEC in May 1992 are therefore noteworthy as they could help to facilitate agreement on agriculture in the Round. The key elements of the reforms are broadly the following:

(a) A reduction in internal support prices for cereals from the reference average buying-in price of ECU 155 per ton for 1991 to a target price of ECU 110 per ton and an intervention price of ECU 100 per ton, to be phased in over the three years 1993/94 to 1995/96;

(b) Full compensation to producers for the reduction in support prices, such compensation being through direct payments which by 1995/96 will total ECU 45 per ton;

(c) Area reduction programmes of 15 per cent for cereals for the 1993 crop year and adoption of annually determined acreage reduction programmes, such programmes excluding producers with less than 20 ha of cereals;

(d) Community preference for cereals of ECU 45 per ton - this amount represents the difference between duty paid import prices and internal support prices;

(e) A reduction of 1 per cent in milk production quotas in each of the two years 1993/94 and 1994/95, if subsequently agreed to by the Council of Agriculture Ministers, along with a 2.5 per cent cut in butter support prices in each of those same years but no cut in skim milk powder prices;

(f) A reduction of 15 per cent in beef intervention prices;

(g) Markedly increased headage payments for cattle, with limits on such payments for male cattle to the first 90 animals in herds;

(h) Additional slaughter premiums to young bovine animals to reduce seasonality of production.

55. These measures could enable EEC to meet some of the requirements of the draft Final Act proposed by the Director-General of GATT. However, there are a number of matters which remain unclear. These include domestic support, which will depend on the status of compensation payments that can be agreed in the context of the Round, and export subsidies, which have not been addressed specifically in the reforms.

56. While these changes could assist progress within the Round, it is not possible at this time to draw definitive or substantive conclusions concerning the implications of the reformed Common Agricultural Policy, both because the full details are not yet available and because the outcome is subject to a range of factors, such as the output response to input use and the type of land taken out of production, which are difficult to predict, even in the short run. Nevertheless, it is likely that the reforms will have a negative impact on EEC production and a positive effect on consumption.

IV. FOLLOW-UP TO THE SECTION ON AGRICULTURE OF THE INTERNATIONAL DEVELOPMENT STRATEGY FOR THE FOURTH UNITED NATIONS DEVELOPMENT DECADE

57. It is nearly two years since the adoption of General Assembly resolution 45/199 on the International Development Strategy for the Fourth United Nations Development Decade. As sufficient information is not currently available to provide a detailed assessment of progress in implementing the Strategy in regard to agriculture, some of the latest available information on developments and trends which would be relevant to such an assessment is reviewed briefly in this section.

A. Towards meeting the target: recent growth performance

58. The section on agriculture of the Strategy (General Assembly resolution 45/199, annex, paras. 70-77) emphasizes the importance of raising agricultural output in developing countries, both as a means to revitalize their economic growth in the 1990s and to strengthen their food security and self-reliance in food. While not formally setting any target rate of growth for agricultural

or food production in developing countries, the Strategy maintains however that an annual rate of growth of the order of 4 per cent on average in food production would make a major contribution to food security and support agro-industrial development. Recent trends in food and agricultural production, reported in section II above (see table 2), indicate that annual growth rates over the past three years (1989-1991) for developing countries as a whole fell far short of the 4 per cent indicative rate. The Far East region, with growth rates of 3.6 per cent in agricultural production and 3.5 per cent in food production, was the only developing region that came close to the target rate on a sustained basis.

59. Annual changes in the agricultural production of developing countries, by country and region, are indicated in table 7, for the period 1988-1991. Out of a total of 86 developing countries for which information was available, only 21 countries (24 per cent) had annual growth rates of agricultural production of 4 per cent or more for the period 1988-1991. On a regional basis, the number of countries was five in Africa, eight in Latin America and the Caribbean, two in the Near East, and six in the Far East. Information on per capita food production for the most recent period (1990-1991) is shown in table 8. Food production lagged behind population growth in 67 out of 108 developing countries (62 per cent) in 1990/91. In sum, if developing countries were to achieve an annual average rate of growth of 4 per cent in food production during the 1990s, then, according to projections of annual average population growth by country for the 1990s, all but a few developing countries would register positive per capita growth in food production in the 1990s.

Table 7. Percentage change in agricultural production, 1988-1991

Country	1988/89	1989/90	1990/91	1988-1991
		Africa		
Tunisia	14.15	17.36	4.23	11.91
Nigeria	4.23	11.49	6.67	7.46
Uganda	7.09	5.15	2.80	5.01
Algeria	-4.51	-0.79	17.46	4.06
Morocco	1.19	-5.29	16.15	4.02
Rwanda	5.31	3.36	2.44	3.70
Benin	4.49	1.23	4.85	3.52
Gabon	2.68	6.09	1.64	3.47
Togo	8.80	0.74	0.73	3.42
Burkina Faso	-1.33	-6.76	17.39	3.10
Mali	1.57	-0.78	7.81	2.87
Malawi	-1.77	-0.90	10.91	2.75
Comoros	2.48	2.42	2.36	2.42
Central African Republic	0.85	4.20	1.61	2.22
Niger	-10.28	-5.21	21.98	2.16
Zaire	2.40	0.78	2.33	1.84
Congo	-3.28	6.78	1.59	1.70
Ethiopia	2.86	3.70	-1.79	1.59
Chad	-3.79	-1.57	8.80	1.15
Reunion	-13.98	1.25	16.05	1.11
Kenya	2.05	3.36	-2.60	0.94
Madagascar	2.56	1.67	-1.64	0.86
Angola	-1.00	1.01	2.00	0.67
United Republic of Tanzania	8.70	-3.20	-4.13	0.45
Swaziland	-4.00	0.00	1.67	-0.78
Mauritania	3.64	-5.26	-0.93	-0.85
Mozambique	0.95	2.83	-7.34	-1.19
Cameroon	-6.09	2.78	-4.50	-2.60
Somalia	2.42	-2.36	-8.87	-2.94
Botswana	4.42	-7.63	-6.42	-3.21
Zimbabwe	-5.76	-1.53	-3.10	-3.46
Sao Tome and Principe	-7.37	-7.95	2.47	-4.28
Lesotho	-14.66	4.04	-5.83	-5.48
Liberia	-3.31	-31.62	-10.00	-14.98

Table 7 (continued)

Country	1988/89	1989/90	1990/91	1988-1991
Latin America and the Caribbean				
Netherlands Antilles	17.65	5.00	47.62	23.42
Bolivia	1.55	8.40	16.20	8.71
Honduras	4.17	6.40	4.51	5.03
Trinidad and Tobago	-3.41	15.29	3.06	4.98
Ecuador	3.79	7.30	3.40	4.83
Colombia	5.93	6.40	1.50	4.61
Chile	6.50	3.82	2.94	4.42
El Salvador	-1.22	14.81	-1.08	4.17
Venezuela	6.61	3.88	0.75	3.74
Costa Rica	7.69	4.76	-2.27	3.39
Belize	2.78	7.21	0.00	3.33
Paraguay	5.70	2.40	1.75	3.28
Martinique	1.65	7.32	0.76	3.24
Jamaica	0.96	9.52	-1.74	2.92
Barbados	3.90	-1.25	5.06	2.57
Uruguay	11.21	-0.78	-6.25	1.39
Mexico	-0.85	6.03	-1.63	1.18
Nicaragua	1.37	1.35	-5.33	-0.87
Suriname	4.04	-11.65	2.20	-1.80
Guyana	-9.59	-6.06	9.68	-1.99
Saint Vincent and the Grenadines	-11.76	5.33	0.00	-2.14
Haiti	1.80	-5.31	-3.74	-2.42
Peru	-1.61	-9.84	3.64	-2.60
Dominica	-14.29	4.00	0.64	-3.21
Antigua and Barbuda	-26.40	8.70	7.00	-3.57
Guadeloupe	-10.85	-20.00	13.04	-5.94
Far East and Pacific				
Lao People's Democratic Republic	17.65	5.71	-0.68	7.56
Pakistan	6.38	3.33	7.74	5.82
China	2.10	8.90	3.14	4.72
Viet Nam	5.67	4.70	3.21	4.53
Singapore	24.47	1.71	-12.61	4.52
Indonesia	3.42	5.30	3.77	4.17
Hong Kong	1.80	6.19	3.33	3.78
Nepal	2.03	1.99	6.49	3.50
Bhutan	2.06	6.06	1.90	3.34
Taiwan, Province of China	7.07	-8.49	11.34	3.31
India	6.57	0.68	1.36	2.87
Thailand	3.20	-4.65	8.13	2.23

Table 7 (continued)

Country	1988/89	1989/90	1990/91	1988-1991
Cambodia	3.85	2.65	-1.55	1.65
Maldives	1.63	2.40	0.78	1.60
Sri Lanka	-3.00	9.28	-1.89	1.46
Myanmar	-10.00	1.71	4.20	-1.36
	Near East			
Saudi Arabia	10.64	8.33	4.93	7.97
Iran (Islamic Republic of)	1.41	10.42	3.77	5.20
Libyan Arab Jamahiriya	7.02	-4.10	5.98	2.97
Lebanon	9.38	-5.71	3.03	2.23
Cyprus	0.00	-6.42	10.78	1.45
Turkey	-5.69	6.90	1.61	0.94
Syrian Arab Republic	-31.39	24.47	0.85	-2.02
Yemen	-0.89	-3.60	-6.54	-3.68
Iraq	7.38	10.69	-31.72	-4.55
Jordan	-25.90	24.39	-12.42	-4.64

Table 8. Rate of change in per capita food production, by country, 1990-1991

Percentage	Developing countries				Developed countries
	Africa	Asia and the Pacific	Latin America and the Caribbean	Near East	
More than 5	Algeria, Burkina Faso, Chad, Gambia, Ghana, Malawi, Morocco, Namibia, Niger, Reunion, Zambia	Samoa, Thailand	Bolivia, Guadeloupe, Guyana	Cyprus, Sudan	Greece, Hungary, Italy, New Zealand
3.01 to 5	Mali, Nigeria	Nepal	Barbados, Puerto Rico		Belgium, Luxembourg
0.1 to 3	Benin, Burundi, Guinea, Tunisia	Bangladesh, Bhutan, Indonesia, Pakistan, Tonga, Viet Nam	Brazil, Chile, Ecuador, El Salvador, Honduras, Martinique, Nicaragua, Peru, Suriname, Trinidad and Tobago	Iran, Libyan Arab Jamahiriya, Saudi Arabia	France, Germany, a/ Ireland, Switzerland, United Kingdom of Great Britain and Northern Ireland
0 to -3	Angola, Central African Republic, Comoros, Congo, Ethiopia, Gabon, Guinea-Bissau, Rwanda, Sao Tome and Principe, Swaziland, Uganda, Zaire	Brunei Darussalam, China, Democratic People's Republic of Korea, India, Malaysia, Maldives, Mauritius, Myanmar, Papua New Guinea, Philippines, Republic of Korea, Solomon Islands	Argentina, Belize, Colombia, Mexico, Panama, Venezuela		Austria, Canada, Czechoslovakia, Denmark, Iceland, Malta, Netherlands, Norway, South Africa, Yugoslavia
-3.01 to -5	Cameroon, Côte d'Ivoire, Liberia, Mauritania, Senegal, Togo	Cambodia, Lao People's Democratic Republic, Macau, Sri Lanka	Cuba, Dominican Republic, Guatemala, Jamaica, Paraguay	Turkey	Japan, Portugal, Spain, United States of America
-5.01 to -10	Botswana, Cape Verde, Kenya, Lesotho, Madagascar, Mozambique, United Republic of Tanzania	Fiji	Costa Rica, Haiti, Uruguay	Egypt, Syrian Arab Republic	Australia, Bulgaria, Poland, Romania, Sweden
Below -10	Sierra Leone, Somalia, Zimbabwe	Mongolia, Singapore, Vanuatu		Iraq, Jordan, Yemen	Albania, Finland, Germany, b/ Israel, former USSR

a/ Former Federal Republic of Germany.

b/ Former German Democratic Republic.

B. National action to raise agricultural production and productivity in developing countries

60. While recognizing that the great diversity of country situations means that there is no single set of policies of general applicability for raising agricultural production and productivity in developing countries, the Strategy notes that policies and measures based on certain considerations will be of broad applicability. Chief among them is the consideration that success in reaching the potential for raising agricultural productivity requires a farming population possessed of the knowledge, the incentives and the means required for this purpose. As mentioned above, there is not sufficient information available to permit a detailed assessment of how countries are implementing the Strategy. Accordingly, only a broad overview of recent developments in policies and measures taken by developing countries which have a bearing on raising agricultural production and productivity is given here.

61. In recent years, many developing countries have embarked upon some form of stabilization and structural adjustment programme, with the general objectives of reducing current account and fiscal deficits, and reducing governmental intervention in market mechanisms. Policies specific to the agriculture sector have included changes in the structure of incentives (price and non-price), trade liberalization designed to bring domestic prices in line with border prices, deregulation and privatization of trade and market channels.

62. Over the past year, agricultural policy initiatives introduced in developing countries have in general followed the trend of recent years towards reducing administrative controls, introducing institutional reforms and improving incentives to producers with the aim of raising agricultural production and productivity on a viable basis. Improvements in producer incentives have involved, in a number of cases, improved price incentives and, in other cases, the introduction or reinforcement of non-price measures with an impact on producer incomes. In 1991, cereal support prices were increased in a wide range of developing countries (e.g., Algeria, China, Democratic People's Republic of Korea, India, Iran (Islamic Republic of), Kenya, Morocco, Syrian Arab Republic, Tunisia, Zambia and Zimbabwe) in order to bolster domestic production in a context of rapidly rising input costs, occurring as a consequence of macroeconomic policy changes. In other developing countries (e.g., Brazil, Colombia, Costa Rica, Egypt, Guatemala, Honduras, Mexico and Rwanda) there were significant moves towards the deregulation of producer prices coupled, in some cases, with land reform, in an attempt to enhance agricultural incentives. Non-price measures affecting the availability and cost of credit and farm inputs were introduced or reinforced in several countries over the past year (e.g., Brazil, Egypt, Pakistan, Philippines and Sri Lanka).

63. With regard to the liberalization of domestic and foreign trade, most recent policy initiatives have involved the continuation of past trends towards privatization and reduced government participation in the domestic marketing of agricultural products. The partial or total privatization of

parastatal marketing agencies and the reduction of government intervention in input and output marketing have been pursued in a number of countries (e.g., Argentina, El Salvador, Ethiopia, Guyana, Kenya, Lesotho, Malawi, Mexico, Pakistan, Sri Lanka, Sudan, Uganda, United Republic of Tanzania, Viet Nam, Zambia and Zimbabwe). In addition, many countries have liberalized the regulations governing international trade, either through removing barriers or opening up to private sector traders (e.g., Algeria, Bangladesh, Cameroon, Dominican Republic, Egypt, Ghana, Honduras, Jamaica, Kenya, Morocco, Pakistan, Peru, Sri Lanka and Venezuela).

C. International action

64. It is noted in the Strategy that a number of steps are also needed at the international level to promote agricultural development during the Decade. In particular, it is stated that finance for investments in the agricultural sector and technical assistance should form part of programmes for development cooperation, both bilateral and multilateral. In line with earlier remarks concerning assessment of the implementation so far of the Strategy, the present section updates the information provided in the earlier report (E/1991/89, paras. 49-57) on recent trends in external assistance to agriculture in developing countries.

65. Total commitments of external assistance to agriculture fell further in 1990, which is the latest year for which complete coverage is available, to almost $14.5 billion after a 7 per cent decline in nominal terms in the previous year (see table 9). If total commitments are deflated by prices of manufactured goods, in real terms 1990 shows a decrease of 10 per cent in relation to 1989 and more than 16 per cent in relation to 1988. The share of grants in total commitments has risen, however, from 31 per cent in 1987 to 36 per cent in 1990.

66. Bilateral assistance fell to $6.55 billion in 1990, about 12 per cent less than the previous year, and about 24 per cent from the 1988 level. Nevertheless, the share of grants in bilateral assistance remains considerably higher than in multilateral assistance, and rose from 57 per cent in 1987 to 71 per cent in 1990.

67. For multilateral lending, estimates are available up to 1991. With an estimate of $8.2 billion in 1991, multilateral commitments have recovered in nominal terms from the downward trend of 1987 to 1989. However, in real terms, multilateral commitments in 1991 are still 10 per cent below their 1987 level. The share of grants in multilateral commitments rose from 7 per cent in 1987 to about 9 per cent in 1991. In 1991 World Bank lending increased by 17 per cent to almost $5.2 billion while that of regional development banks dropped by nearly 25 per cent.

Table 9. Commitments and disbursements of external assistance to agriculture (broad definition), 1987-1991)

(Millions of United States dollars)

Donors	Total commitments					Total disbursements				
	1987	1988	1989	1990	1991 a/	1987	1988	1989	1990	1991 a/
					At current prices					
Total commitments/ disbursements of	14 491	15 999	14 715	14 621	...	12 196	14 334	12 542	...	...
which grants	4 450	5 222	4 550	5 344	...	4 980	5 675	4 989	...	...
Bilateral	6 757	8 592	7 468	6 550	...	5 790	6 690	6 225	...	...
of which grants	3 888	4 582	3 876	4 627	...	4 430	5 070	4 360	...	...
Multilateral	7 734	7 406	7 247	8 071	8 164	6 406	7 644	6 317	7 010	7 347
of which grants	562	640	674	717	(731)	550	605	641	680	690
World Bank	4 045	3 951	4 047	4 443	5 182	3 868	4 895	3 371	3 690	4 112
IBRD	2 632	2 189	2 596	2 426	3 407	2 518	3 089	2 213	2 304	2 439
IDA	1 413	1 762	1 451	2 017	1 775	1 350	1 806	1 159	1 387	1 673
IFAD	216	176	240	348	280	234	203	194	200	183
Regional development banks	2 663	2 484	2 078	2 444	1 833	1 624	1 788	1 969	2 286	2 224
OPEC multilateral	272	217	280	182	(221)	(150)	(180)	(180)	(180)	(180)
UNDP/FAO/CGIAR	530	578	603	654	(648)	530	578	603	654	648
					At constant 1985 prices b/					
Total commitments/ disbursements of	10 734	11 110	10 290	9 254	...	9 034	9 954	8 771	...	...
which grants	3 296	3 626	3 182	3 382	...	3 689	3 941	3 489	...	...
Bilateral	5 005	5 967	5 222	4 146	...	4 289	4 646	4 353	...	...
of which grants	2 880	3 182	2 710	2 928	...	3 281	3 521	3 049	...	...
Multilateral	5 729	5 143	5 069	5 108	5 167	4 745	5 308	4 417	4 437	4 650
of which grants	416	444	471	454	463	407	420	448	430	437

Source: Statistics Division of FAO and OECD.

Note: ... Data not available.

() Estimates.

a/ Preliminary data.

b/ Deflated by the United Nations index of unit value of exports of manufactured goods; 1985=100.

68. Complete data on total disbursements of external assistance to agriculture are not yet available for 1991 or 1990, for lack of sufficient information on bilateral disbursements. With regard to multilateral assistance, preliminary data for 1991 indicate that disbursements, at $7.3 billion, rose by about 5 per cent from the previous year's level. Disbursements by the World Bank group rose 11 per cent, to $4.1 billion, while those of regional development banks fell by about 3 per cent.

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EXTERNAL DEBT CRISIS AND DEVELOPMENT

Recent experience under the international debt strategy

Report of the Secretary-General

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I. INTRODUCTION

1. The international debt crisis of the developing countries has reached its tenth year, measured from August 1982 when Mexico became unable to service its commercial bank debt. On this anniversary, it is particularly noteworthy that several important developments in international debt policy have taken place over the past 12 months. First, perceptions in the international financial markets of the creditworthiness of the major heavily indebted countries improved significantly, as borrowers in some of these countries returned to the market, albeit paying significant interest premiums. Second, more countries negotiated debt and debt-service reduction agreements with their bank creditors; these are meant to be the final of several rounds of bank negotiations. Third, a new and more concessional set of terms was adopted in the Paris Club - the debt-restructuring forum for official, industrial-country creditors, which are being applied to low-income, heavily-indebted countries undertaking economic adjustment programmes. What remains to be seen is whether the new agreements will in fact eliminate the debt overhang, whether a sufficient number of countries will be able to take advantage of them, whether the financial improvements will be solidified in renewed, sustainable and sustained flows of external finance to the heavily indebted countries and, finally, whether the affected economies will recover from the lost decade of debt crisis.

2. The major developments of the past year follow several improvements in the policies governing the international treatment of debt, which were noted by the General Assembly in its resolution 46/148 of 18 December 1991. In that resolution, the Assembly, after reviewing the international debt situation of the developing countries as described in the report of the Secretary-General (A/46/415) and in the debate under agenda item 81, entitled "External debt crisis and development", expressed a deepening of the international consensus on policy priorities and concerns for overcoming foreign debt crises in developing countries. The developing country debt situation continues to be monitored in view of the role of debt crises, inter alia, in inhibiting necessary increases in investment and in prolonging the strains on social and political stability from protracted economic adjustment processes. This report thus examines recent policies in action in the private and public sphere of external debt and updates the Secretary-General's report of 1991. 1/

II. CURRENT SITUATION IN HEAVILY INDEBTED DEVELOPING COUNTRIES

3. After a decade of crisis, disappointment, and stagnation, the heavily indebted developing countries are anxious to leave behind the debt-related problems of the 1980s and return to the essential process of economic and social development. Where an unsustainable growth in foreign borrowing originated in unsustainable macroeconomic policies, this has meant facing up to the need for corrective policies. Where the growth of debt was in reaction to inflexible and declining export sectors, the need for structural adjustment

to promote competitive production of tradable goods and services has had to be accepted. By the same token, after adverse international economic developments first made incipient debt crises painfully visible and then demonstrated their nature to be insolvency rather than illiquidity, the creditor community has had to respond with increasing degrees of debt relief.

4. While some Asian economies led the adjustment process in the 1980s, several Latin American countries have now begun to show some of the fruits of adjustments begun in the 1980s. A major external support to this process has come recently in new financial inflows arranged by both domestic and foreign business communities, encouraged in some measure by new debt agreements, but also by a fortuitous drop in United States dollar interest rates relative to high Latin American rates. In Africa, where the structural difficulties have been deeper, the payoffs have been slowest to emerge and the overall prognosis remains the most difficult. In none of the recently adjusting, heavily indebted countries, however, can it be said that the rate of capital formation has surged or that the economy has returned to a higher long-run growth path. That the economic and financial conditions for such developments are being set in several countries is a source of optimism. That the period of adjustment, slow economic growth, intensified social inequities and political tensions might be further protracted in other countries remains cause for concern.

A. The state of indebtedness

5. The total stock of external debt of the capital-importing developing countries 2/ was about $1,260 billion at the end of 1991, virtually the same as in 1990 (see table 1). The net lending flow was for the most part offset by debt conversion, debt cancellation, clearance of arrears and exchange-rate valuation changes. The debt owed to official creditors continued to increase its share of total debt, reaching 46 per cent in 1991. It had been only 35 per cent in 1981. The debt owed to the private sector has not only been falling as a share of the total, but the level itself has been declining steadily since the peak in 1987.

6. Although the total amount of debt in dollar terms has remained at about the same level since 1987, it fell from 50 per cent of GNP that year to 36 per cent in 1991. The debt-to-export ratio also fell in this period; it had peaked in 1986 at 200 per cent and reached 133 per cent in 1991.

7. Africa's total debt decreased slightly, reflecting in part a large write-off of the debt owed by Egypt to official creditors. As a ratio to GNP, Africa's debt is none the less the highest among the major developing country regions, although the share of export earnings needed for debt servicing lies below that for Latin America and the Caribbean (see figure 1). Debt-servicing payments by sub-Saharan African countries fell slightly 3/ but the debt service-to-export ratio did not decline, owing to poor export earnings as commodity export prices fell. This interrupted the trend since 1987 of declining debt-servicing ratios, which had been partly due to increases in export volumes, but also reflected the region's continued severe difficulties in meeting debt-servicing obligations.

Table 1. Debt and debt servicing of the capital-importing developing countries, 1981-1991

(Billions of United States dollars)

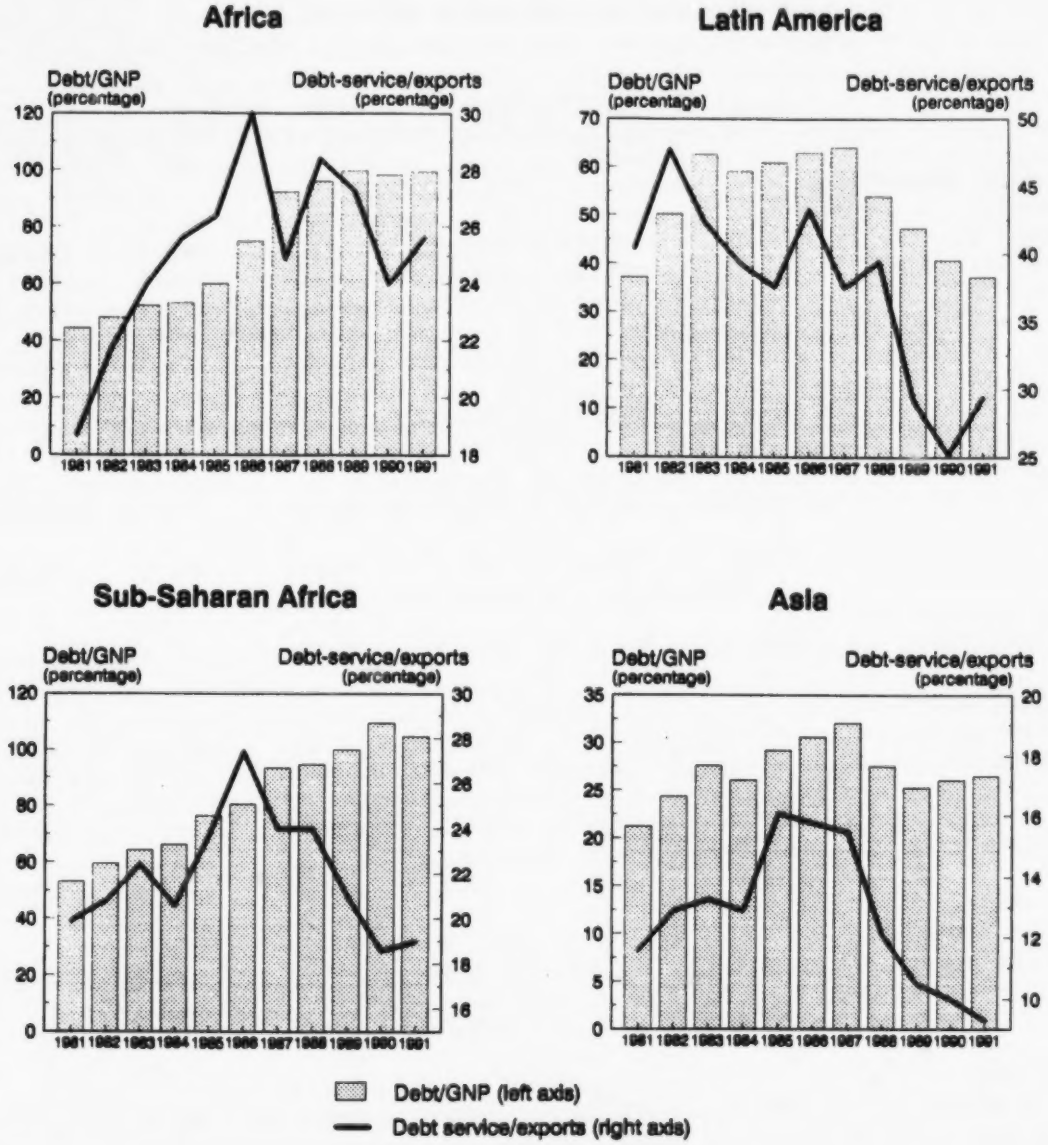
	1981	1987	1988	1989	1990	1991 a/
Total debt outstanding						
Long-term						
Official	242.4	530.4	529.2	548.1	559.3	573.5
Private	306.1	536.5	521.2	501.9	496.8	487.5
Short-term	148.9	144.3	150.8	165.4	194.4	198.9
Total	697.4	1 211.2	1 201.2	1 215.4	1 250.5	1 259.9
of which,						
Africa	126.9	251.3	255.8	226.0	277.7	274.7
of which, sub-Saharan Africa b/	45.8	100.0	101.0	105.4	118.7	121.2
Asia	204.2	393.3	396.7	404.9	423.1	440.1
Latin America and the Caribbean	317.2	475.0	457.5	452.1	447.7	444.9
Total debt servicing						
Interest payments	60.3	63.2	73.1	66.4	63.8	71.3
Principal repaid	46.6	73.9	74.2	71.5	75.7	76.3
Total	106.9	137.1	147.3	137.9	139.5	147.6
of which,						
Africa	15.6	19.2	22.7	23.5	25.4	27.4
of which, sub-Saharan Africa b/	5.4	7.7	7.9	7.5	7.1	6.6
Asia	27.7	58.8	55.5	54.7	56.8	58.3
Latin America and the Caribbean	56.3	47.0	55.2	45.9	42.5	48.1

Source: United Nations, World Economic Survey, 1992.

a/ Preliminary.

b/ Excluding Nigeria and South Africa.

Figure 1. Debt indicators of major developing regions, 1981-1991 a/



Source: United Nations, World Economic Survey, 1992.

a/ Excluding major oil-exporting countries of the Middle East and Libyan Arab Jamahiriya; sub-Saharan Africa excludes Nigeria.

8. As in Africa as a whole, the debt of Latin America fell slightly, while debt servicing rose more than $5 billion, mainly because of certain payments of interest arrears. The fall in Latin America's debt reflected various debt negotiations concluded in 1990 and debt conversion schemes. A notable case of the latter was in Argentina, where proceeds from the privatization of telephone and airline companies eliminated $7 billion of its debt in 1991. The debt stock of Asian countries grew, reflecting their continued market access and use of official credit. But Asia's increase in its debt stock was balanced by its strong export performance, causing a further decline of the Asian debt-servicing ratio.

9. On a quantitatively smaller scale, more cases of debt-for-nature swaps have been taking place as interest and understanding rise on environmental issues and the swap mechanism. 4/ In general, debt is either bought or donated to non-governmental, non-profit organizations working for conservation in developing countries. The debt is, in effect, transferred to the debtor government in exchange for a commitment to spend specified domestic resources on environmental projects. In a recent case in Panama, for example, it was agreed that $30 million of foreign debt would be exchanged for "ecology bonds", the earnings of which would support Government and community projects.

10. Most of the debt in debt-for-nature swaps has been owed to commercial banks, but the Paris Club added a provision to the terms for restructuring the debt owed to official creditors by lower middle-income countries under which such swaps could be arranged. In addition, the Enterprise for the Americas Initiative of the United States of America contains a provision for building environmental funds by using the local currency equivalent of certain interest due to the United States Government. Chile arranged the first swap under this scheme in February 1992. In a multilateral initiative, the Inter-American Development Bank (IDB) allocated $400 million to a Special Financing Modality for Environmental Projects, a pilot programme to assist in debt-for-nature swaps. Under the programme, IDB will lend money to its member countries to purchase commercial debt for environmental purposes.

11. All in all, 1991 was a year of rather modest changes in aggregate debt statistics that broadly continued recent trends and 1992 is expected to continue to follow this pattern. As of mid-year, Mexico recorded a $7 billion reduction in its debt stock through buy-backs and swaps in the secondary market. The conclusion of bank-debt agreements for Argentina and Brazil expected in the second half of 1992 should result in significant debt stock reduction in each case and agreements to restructure the debt owed to government creditors by low-income debtors is further reducing the amounts outstanding, as will be discussed in section III below. In addition, several countries in Africa, Asia and Latin America continue to pursue privatization programmes, many of which involve debt-equity swaps. However, new private and official lending will tend to raise total debt outstanding.

B. Impact on net financial transfers

12. One summary measure of how the debt crisis initially affected developing countries was the net transfer of financial resources that those countries made abroad when foreign banks sharply decreased lending while countries largely maintained their interest payments. In 1991, the capital-importing developing countries received a net financial transfer for the first time since 1982, and the net transfer is likely to remain positive in 1992 as well. The largest changes in 1991 occurred in countries of Latin America and the Caribbean, where the net transfer excluding the flows in and out of official reserves went from a net payment abroad of almost $16 billion in 1990 to an estimated inflow of over $4 billion in 1991, according to the World Economic Survey, 1992. 5/

13. The $20 billion swing in Latin America's net financial transfer seems to have been related to two phenomena. First was progress made and anticipated in regularizing the foreign debt situation in the region and in domestic adjustment programmes. Second was a substantial, speculative inflow that has been attracted by a large interest differential in favour of Latin American countries and a decline in other speculative financial opportunities. As will be discussed in more detail in section III below, the international cash flow changes directly linked to the debt restructuring agreements have been relatively small. The agreements, which are part of packages that include internationally supported adjustment programmes, seem rather to have served as a signal to the financial community.

14. The region of sub-Saharan Africa, where most of the least developed countries are concentrated, continued to receive net financial transfers at about the same nominal level as in earlier years, namely, about $7 billion. Certain amounts of the debt of the low-income countries of this region and others are being written off. However, since much of it was not being serviced in any event and write-offs can lead to a reduction in fresh flows, the immediate cash flow gains to the debtors are expected to be small. As in the case of Latin America, the principal financial gain will be in regularizing international financial relations and, over the long run, stimulating the flows of private funds. In the near term, however, most of these will have to be official flows. Africa has not measurably shared in a surge in direct foreign investment to Asia and Latin America in recent years. Over the long run it must, since direct investment is not only an elastic source of non-debt creating flows, but it can also speed the diversification of Africa's exports into manufacturing.

15. In Asia, where the debt situation has been on the whole more favourable than in Africa or Latin America, the net transfer rose by almost $8 billion last year, mainly because of new credit inflows. In the Republic of Korea, for example, this meant increased borrowing on international markets. In India, in contrast, significant private borrowing in past years rapidly raised debt-servicing, made India vulnerable to a loss of market confidence and required that a stringent process of adjustment be set in motion, which is being supported with increased flows of official credit.

C. Progress in adjustment of heavily indebted countries

16. Many developing countries, particularly heavily indebted ones, continue to undertake internationally supported stabilization and structural adjustment programmes. Rates of progress vary from country to country, although there are certain broad regional features, since some of the determining factors are shared by countries in the same region, such as weather patterns and sometimes political conditions.

17. In Latin America, adjustment and stabilization efforts have increasingly been successful in reducing inflationary pressures and improving fiscal balances, which the interest burden on the debt had helped worsen in the first place. From the beginning, the debt crisis was both a fiscal problem and a foreign-exchange problem, since debt-servicing payments were mainly being paid by Governments. The recent, substantial capital flows to certain countries - a missing link in earlier adjustment programmes - have significantly ameliorated the foreign exchange constraint in those instances, but the pressure to curtail government expenditure and raise taxes remained as before. All in all, the region resumed a positive, though marginal, growth in per capita GDP in 1991 for the first time since 1987.

18. The structural side of the domestic reforms in Latin America and elsewhere aim to reduce market impediments, liberalize trade and shrink the direct role of the state in the economy. In this regard, privatization programmes have gathered momentum in many of these countries. Privatization is considered to have multiple benefits: generating revenue for the Government through sale proceeds and future tax payments, reducing external debt in cases of debt-equity swaps, reducing public expenditure when subsidies can be withdrawn or reduced, inducing investment, and raising efficiency. It has also been increasingly realized, however, that privatization programmes have to be carefully prepared and embody adequate competition so Governments can reap the maximum economic and financial benefits from the sale of public assets.

19. African countries are continuing with economic reform programmes even though the expected improvements in investment and growth have thus far been delayed in many cases. Moreover, some aspects of adjustment programmes, such as large devaluation (Algeria and the Sudan), price liberalization (Egypt and Zimbabwe) and tax rate increases (Togo), have contributed to a rise in inflation. Reduction of excessive budget deficits is being sought through such policies as privatization of state-owned enterprises, increasing tax revenues and reducing government payrolls. The last policy has been especially difficult to implement in some countries that faced direct opposition by civil servants.

20. In many African countries, too little time has passed to assess adequately the progress in adjustment. In others, civil strife and drought have put survival at the forefront of concern. In yet other countries, political reform aimed at greater pluralism has brought changes to the implementation of economic reform programmes.

21. India's major macroeconomic stabilization and structural adjustment programme includes devaluation, liberalization of trade and elimination of traditional subsidies and administered prices. Although the initial effect of the programme is causing inflationary pressure and a privatization programme has faced the opposition of unions, the programme is being broadly supported. Faced with severe budgetary and foreign exchange constraints, Pakistan also launched a major liberalization programme. The measures announced in 1991 include the removal of foreign exchange control, the revision of policies relating to foreign direct investment inflows, banking deregulation and privatization.

22. In Indonesia, a financial deregulation embarked upon in 1988 has resulted in substantial credit inflows that raised external debt by a third in three years. The Government has responded with a mechanism to coordinate international borrowing and has set a ceiling for new foreign borrowing for all public and private borrowers. The country's situation exemplifies the difficulty of carrying out deregulation and the continuing need for a state role in coordinating finance so that a debt burden does not become a debt overhang.

D. Social dimensions of adjustment under debt

23. Economic reforms being implemented in over-indebted countries have had particular social consequences. Stabilization measures follow the basic strategy of reducing demand to redress external and domestic imbalances and naturally have a deflationary aspect, although this stage in adjustment is supposed to be short-term. Structural adjustment programmes are, on the contrary, of medium- and long-term nature, aiming at increasing the economy's productivity and flexibility through liberalization and reallocation of private investment under new market signals and more effective and strengthened public investment programmes. Structural adjustment requires adequate financing for investment and a context of significant economic growth to reabsorb into expanding economic sectors the labour and other resources from shrinking ones. In many cases either the international economic environment or the domestic policy environment, or both, have made it difficult to restart growth, and the social hardships of adjustment have been protracted and multiplied.

24. Low-income groups have been especially vulnerable and their situation has become a focus of international attention. 6/ In more affluent economies, a social safety net, some sort of income insurance, would be provided to assist the poor and unemployed to go through the short-term difficulty. In developing countries, affected individuals have to rely to a much greater degree on activities in the informal sector and on resources of families for their safety net. Yet, the resources of poor families are thin and adjustment has stretched them thinner.

25. Stabilization measures normally include cuts in public expenditure to a far greater degree than increases in revenue. 7/ Cuts are usually made in both current and investment expenditures. When the cuts are short term, postponing investment seems eminently sensible. The difficulty is that infrastructure deteriorates and productivity dips when the cuts are protracted. Human capital and the quality of life suffer when investment is cut in such fundamental areas as education and health. Cuts in current expenditures frequently have severe impacts, especially in urban areas, on low-income people who directly or indirectly lose employment and wages or lose the purchasing power of wages that do not rise as much as inflation, particularly when subsidies on consumer necessities are lost. In a slow-growing environment, such loss of income without alternate opportunities for employment or enterprise has the potential to create a politically volatile situation. That eventuality would only worsen the environment for investment and growth and further drag out the adjustment process.

26. Thus, however much the Government intends to reduce the direct economic role of the state, it is now widely recognized that it must help its people to make the transition during the period of adjustment. The adequacy of safety nets has become a major issue in the design of adjustment programmes. Ghana's Programme of Action to Mitigate the Social Costs of Adjustment was one of the first to target assistance to the victims of certain measures, such as employees of public sector and state enterprises who lost their jobs. In Chile and Morocco, aid was provided to mothers in poor districts and the unemployed in rural areas. 8/

27. However, the fiscal restraints on the government budget make it difficult to implement these measures in most cases. The adjustment programmes were adopted to deal with fiscal imbalances in the first place. Hence, donor governments and multilateral institutions can play an important role in contributing financing, where appropriate, in the form of grants and targeting the assistance on programmes for low-income groups. Indeed, many bodies of the United Nations system have become closely involved in such work. 9/

E. International economic environment

28. In 1991, the volume of Latin America's imports surged by almost 14 per cent. 10/ Import growth had averaged only 5 per cent annually in the previous five years, while before that the large-scale import contractions of the early stages of the debt crisis took place. Latin America's export volume grew an estimated 4.5 per cent in 1991, more than in 1990, but less than in the previous three years. The export volume growth thus did not provide the resources for the increased imports. Indeed, the region's terms of trade fell 6 per cent in 1991 and thus the purchasing power of Latin America's exports did not improve at all. Rather, the import surge was largely financed with much improved net financial transfers to countries of the region. Indeed, net capital inflows to the region were so large that despite the import surge, official reserves rose almost $18 billion.

29. The experience of Africa in 1991 was different. The volume of imports grew less than 3 per cent. After years of decline, imports increased from 1988 to 1990 at an average rate of less than 5 per cent a year. Export volume grew 4 per cent in 1991, but the terms of trade declined by about 7.5 per cent and thus the purchasing power of Africa's exports actually fell. There was no surge in financial inflows in 1991; indeed, the sharp increase in official grants that had been an international response to the economic effects of the crisis situation between Iraq and Kuwait came primarily in 1990. Reserves increased, but by a mere $2 billion.

30. This constraining relationship between trade, debt and finance has been a prominent feature of the developing country debt crisis since the early 1980s. Thus, the sudden relaxation of that constraint in some countries in Latin America in 1991 was most significant. Nevertheless, the surge in the value of imports was especially marked in only a few large countries, such as Mexico, where expenditure on imports rose by a fifth, Argentina, where imports doubled, and Venezuela, where imports rose by almost one half. Even in those countries, however, major concern remains that the higher import capacity be sustained, that it be devoted especially to imports of capital goods, and that the rate of investment and growth rise significantly as well and feed back into the growth of export capacity. In the rest of the debt-constrained developing countries, the primary concern remains what it has been for much of the 1980s, namely, to bring about their own financial turnaround.

31. In this regard, a key question is whether the international economic environment, which has been so difficult for the heavily indebted developing countries generally since the early 1980s, will become more supportive in the 1990s. In one sense it already has. That is, average interest rates charged on developing country foreign debt fell on average, in 1990 and 1991 and they will fall again in 1992. The decline, reflecting declines in average market interest rates, has mainly affected short-term debt and the variable-rate portion of long-term debt, which mainly consists of medium-term loans from commercial banks, excluding several of the instruments that banks have exchanged for their loans in the debt and debt-service reduction agreements that are discussed in section III below. The decline in market interest rates also reduces charges on loans from multilateral financial institutions, albeit with a lag, as these institutions pass on the interest savings on their own borrowing to their debtors.

32. The size of the interest saving arising from the decline in market interest rates depends not only on the portion of debt that carries variable interest rates, but also on the currencies in which the debt is denominated, as interest rates in different markets have followed very different patterns. The London interbank offer rate (LIBOR) on six-month United States dollar deposits, the most common rate to which variable-interest loans are tied, fell from an average of 9.3 per cent in 1989 to 6.1 per cent in 1991, and by June 1992 it had reached 4.1 per cent. But six-month LIBOR rates for deutsche mark loans have risen over the same period. The 1991 average rate of 9.4 per cent was more than double the rate of 1988; by June 1992 the DM LIBOR rate had reached 9.8 per cent. Over the same period, interest rates on loans

in Japanese yen and British pounds sterling first rose and then fell, with the six-month LIBOR rate on yen loans peaking at 7.8 per cent in 1990 and falling to 4.5 per cent by June of this year; pound rates almost reached 15 per cent in 1990 and only slipped below 10 per cent in June of 1992. 11/

33. The World Bank has estimated that such interest rate changes saved the developing countries and transition economies of eastern Europe $13 billion in 1991. 12/ The largest portion of the gain accruing to developing countries was $6 billion in Latin America, where the dollar share of the debt is particularly high. In sub-Saharan Africa, where more of the debt originated in European trade credits, the gain was below $1 billion, with more than a fifth of that accruing to Nigeria.

34. These savings, while significant, must be kept in perspective. First, the gains may be temporary. When economic recovery gathers steam in the United States its interest rates will rise, although the high German rates should recede as soon as the authorities are satisfied with progress in dampening inflation in that country. Moreover, in Latin America where the gains seemed so large, they amounted to less than 4 per cent of export earnings. Indeed, trade is the most important international factor determining the prospects that the heavily indebted developing countries will emerge from their debt crises.

35. The decline in the terms of trade in Africa and Latin America noted above was a reflection of the continued dependence of many of them on traditional commodity exports whose prices fell relative to the prices of the more diversified collection of goods they imported. The international prices of most of these commodities are cyclically sensitive and were affected adversely by the world economic recession of 1991, but the long-run trends in demand also seem to be largely unfavourable. In South and East Asia, in contrast, where manufactures are a larger share of exports, the terms of trade fell only 1.5 per cent in 1991.

36. Countries need to diversify exports into commodities for which the income elasticity of demand is higher and into manufacturing. This should be an investment priority; however, for many countries the key constraint has been that overall investment itself has been grossly inadequate, as domestic and foreign investors have hesitated to commit to substantial new projects.

37. In this regard, there is a lesson in the suddenly increased plans of domestic and foreign investors to build up the export capacity of Mexico. As it is largely in anticipation of the establishment of the North American Free Trade Area, it underlines how important assured market access is to investment plans in the export sector.

38. The uncertainty hanging over the unresolved Uruguay Round of multilateral trade negotiations in the General Agreement on Tariffs and Trade makes it difficult for investors to commit themselves in several product areas. As the experience under the Multi-fibre Arrangement (MFA) showed, when new entrants begin to compete successfully in politically sensitive markets - in this case

in textiles and clothing - importing countries have protected their domestic suppliers by managing the trade, even though doing so contravenes deeply held principles of liberalized trade. A successful Uruguay Round would not only phase out the MFA, but it would also establish stronger rules and disciplines to limit the policy hindrances to trade flows.

39. Most of the investment that must be undertaken in the heavily indebted countries will be in the private sector, but public sector investment is still essential, both for physical and human infrastructure and to act as a catalyst for private investment. The official international community has a traditional role in helping to finance public sector investment in developing countries, as well as in assisting countries through balance-of-payments adjustment. In the latter area, in particular, the ability to continue to lend will finally be ensured through the implementation of the delayed Ninth Quota Increase at the International Monetary Fund (IMF). Assistance for low-income countries is especially important and the recent decision by the IMF Executive Board to extend the Enhanced Structural Adjustment Facility for a year is a positive sign. Most significant, however, are the negotiations currently under way to replenish the funds of the International Development Association (IDA), the highly concessional lending arm of the World Bank. With prospective lending to certain Asian economies in transition, as well as lending for traditional and new environmental projects and programmes, IDA requires a substantial increase in funds.

III. NEGOTIATED DEBT RESTRUCTURING

40. When a private enterprise works itself into an untenable debt situation, unpaid creditors press their claims, the firm defaults, is declared bankrupt and, if efforts of the courts to reorganize the firm fail, the firm's assets are liquidated to make partial payment to the creditors. Governments cannot be liquidated and so creditors must renegotiate insupportable foreign debt burdens with the debtor until the debt overhang is removed. The main aim of the creditors in the negotiation is to collect as much as possible of their outstanding loans and interest; the major fear of the debtor is being cut off from all sources of funds, having to cut back imports severely and to carry out international trade on a cash basis. In the early stages of the debt crisis, several of the debtors' fears were realized, while creditors were largely able to postpone their losses. Over time, creditors increasingly had to face the insolvency of their borrowers, and the international community gradually came to the political judgement that debtors needed to be supported in their economic reform efforts through more debt relief. The degree and modalities of relief nevertheless required negotiation, a process that continues to evolve.

A. Negotiations with international commercial banks

41. With the signing of an outline agreement between the Brazilian Government and its international commercial bank creditors in July of 1992, the heavily indebted developing countries with the largest commercial bank debt have all reached new agreements for "debt and debt-service reduction" (DDSR), as the schemes worked out under the initiative of the United States Secretary of the Treasury have come to be called. Earlier in the year, Nigeria concluded an agreement with its bank creditors in January, the Philippines reached a second phase agreement in February, and Argentina reached an outline agreement in April, which was later finalized in June. 13/ In all, since the Mexican agreement in 1989, there have been nine DDSR cases, involving eight countries, 14/ of which three are still agreements in principle. The agreements cover $150 billion of debt, which is over 30 per cent of the medium-term and long-term bank debt owed by all the capital-importing developing countries taken together.

42. As the latest and most elaborate of the DDSR agreements, the Brazilian case is of some importance. It covers $44 billion in bank claims and took more than a year to negotiate, although it may also be seen as the culmination of several earlier negotiation attempts.

43. The Brazilian menu gives bank creditors the option of exchanging their claims for any of five different bonds at an effective discount of about 35 per cent off face value in each case or lending new money to Brazil. The bonds are structured in different ways to be attractive to banks operating in different regulatory environments and with different preferences for taking on risk to raise their expected returns. One option is to exchange, for example, $100 worth of bank claims for $65 worth of bonds paying market interest rates and maturing in 30 years. In a second option, bank claims would be exchanged at par for 30-year bonds paying below-market interest rates that begin at 4 per cent a year and rise to 6 per cent by the seventh year. The other options are more complicated, entailing different interest rate structures and maturities and varying grace periods. The options also differ in terms of the collateral available to guarantee timely payment.

44. The agreement contains an option for temporary "phase-in" bonds if insufficient resources are available to provide the total collateral for the package of bonds that the creditors choose as a whole. Providing collateral for sovereign-risk loans was an innovation of the DDSR approach, adding an enhancement to the banks to participate in the agreements. As in other cases, it will take the form of purchase by the Brazilian Government of riskless financial instruments, such as zero-coupon United States Treasury bonds, that would be financed out of Brazil's foreign exchange reserves and prospective multilateral credits.

45. The number of options available to the banks in the Brazilian agreement is so large because of the importance given to encouraging the banks to participate without resort to other enforcing mechanisms. Voluntary participation has been an aim of all the internationally negotiated

restructuring of developing country bank debt. It was feared that as private entities with legal claims on debtor Governments, individual banks could take their cases to court if they believed more would be gained thereby than by participating in a concerted debt renegotiation. Court actions in different jurisdictions - each with its own laws, precedents and practices - would likely tie up the resolution of a country's debt problem for many years. However, if banks chose not to participate in a debt renegotiation that succeeded in restoring the debt-servicing capacity of the debtor, it would be a "free rider" if it once again received scheduled payments on its loans without having first shared in the sacrifices of the participating banks. The question for international policy makers was thus how to design a debt-restructuring scheme in which banks would choose to participate and which also accorded significant gains to the debtor country.

46. The DDSR schemes are the latest answer to this question. To see how they work, it is useful to first look at a third option that an individual bank has beside seeking redress in the courts or doing nothing at all. That is, a bank can sell its claim on a debtor country in the secondary market. This market, which originated in banks exchanging claims among themselves on different countries, has operated as well on a cash basis for several years, with the market price expressed as a per cent of the face value of the debt. The bank would sell its claim on a problem debtor at a discount that depended on market sentiment about the country's being able to resume full debt servicing at some later point. As may be seen in figure 2, which shows the average price of the debt of 15 countries that account for almost all the activity in the secondary market (Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia), the amount of the discount has varied quite dramatically over time.

47. When a market has many buyers and sellers and when there is a large and continuous volume of transactions, the market price is usually an appropriate valuation of what is traded. Although it would be an exaggeration to say that the trading of the bank debt of any country listed on the secondary market is so competitive, the price is said to more or less reflect the present value of the debt servicing that the international financial sector expects the Government will pay over the remaining life of the debt. In other words, a bank that contemplates the secondary market should be indifferent between selling its part of a country's debt at the going price and holding it in return for future debt-service payments.

48. The Government of the debtor country may also have an interest in the secondary market, in this case to retire debt at less than its face value. But because of the nature of the syndication contracts under which most large bank loans were originally made, the cooperation of the creditor banks is generally required for any substantial government buy-back of its debt. All the banks would thus know when a buy-back was in process and this could work to the disadvantage of the debtor Government.

Figure 2. Market bids on bank debt and successor bonds of 15 developing countries, 1986-1992

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of Salomon Brothers, New York.

49. The reason is that the knowledge that a buy-back is under consideration can reduce the discount. When, as a result of a debt buy-back, the outstanding amount of debt is reduced, the secondary market price could rise due to a higher expectation that the remaining debt will be serviced. 15/ If a bank expects the price to rise after the deal, it will insist on a settlement price at the level where it is expected to be after the reduction occurs, a "post-deal" price. Each bank could always hold onto its part of the debt and wait for other banks to settle the deal at the original price. None would do so and the Government would have to raise its bid to make the purchases.

50. The Bolivian buy-back of March 1988 is a case in point. Bolivia's bank debt had amounted to $670 million, which was valued at $40.2 million in September 1986 prior to the buy-back negotiation, based on a bid price of 6 cents per dollar. In addition, Bolivia had accumulated $300 million in interest arrears. Using funds provided by donor Governments, $308 million of debt together with the interest arrears on that debt were retired at a price of 11 cents to a dollar. The total expense was thus $33.9 million. After the transaction, the remaining $362 million of outstanding bank debt was valued at $39.8 million. The price increase from 6 cents to 11 cents to a dollar of debt meant that even with the face value reduction of almost half of the entire debt stock, the market value of the debt based on the expected payment flow only fell $0.4 million ($40.2 million minus $39.8 million). Since the funds for the buy-back were provided by donors, and perhaps some of them would not have been made available for other uses, Bolivia still made a net gain. The largest portion of the benefit, however, accrued to the banks. Those that sold their claims received more than they otherwise expected and the remaining banks were left with claims that had risen in value. 16/

51. In principle, more of the discount would have been captured by the debtor or its donors if the price of the buy-back had been negotiated directly with all the participating banks at one time in a concerted fashion, rather than leaving banks to sell individually in the market. But such a negotiation would have been extremely time and effort-consuming, as the very different interests of the banks would directly come into play. Some banks with minimal interests in the debtor economy and small lending exposure would have been willing to sell their claims for a lower price than other banks with larger exposures and more extensive business interests there. Banks would also differ in their assessments of the future ability of the country to service the debt. There could thus be quite a range of the lowest price that each bank would accept, called its "reservation price". If all the banks were to participate and no banks were to make a loss, the operation would have to settle at the highest reservation price. In that sense, all banks would sell their claims at the price that the bank that was least willing to part with its claims insisted upon.

52. Although concerted debt sales of this sort did not take place, a comparable dynamic characterized the negotiations for concerted debt restructuring in the 1982-1988 period that preceded the current DDSR menu approach. There, instead of jointly accepting a selling price for their claims, banks had to agree to a single revised schedule of debt servicing and joint provision of new loans to help finance that debt servicing. The increasingly disparate interests of the banks made it more and more difficult to reach agreement in successive rounds of debt rescheduling.

53. One key advance in the new DDSR approach was that participating banks could choose different options. There is no single price on which all have to agree, no single debt rescheduling and refinancing package that all have to adopt. DDSR agreements are formed in two stages: first, a menu of options and their pricing are negotiated; and second, the creditors commit themselves to the various options. As in the Brazilian agreement noted above, the

options normally include swapping bank claims for bonds with less face value or for bonds at par but with lower interest rates, or retaining bank claims but lending new money to help service the debt while increasing the individual bank's exposure. Sometimes they also include a cash buy-back at a specified discount price. The prices and terms of the replacement financial instruments are negotiated with an eye on the secondary market and expectations about the participating banks' reservation prices. The banks then make their choices depending in part on the regulatory environment they face. 17/

54. The banks that choose one of the bond swaps or the cash sale thereby recognize formally that their bank loans have less than face value and they thus take an accounting loss if they had not already done so at the insistence of their regulatory agencies. All the other banks, that is, those that have a higher reservation price than the price in a cash buy-back or the price implicit in the various bond swaps, choose the new money option. If their regulatory agencies are accommodating, those banks do not have to show an accounting loss; but they incur an implicit loss, known as the "new-money tax", because from the first moment their new loans are issued they will trade on the secondary market at the same discount as the outstanding old debt. 18/

55. If banks were completely free to choose among the menu options, they might also be free not to participate at all. Such banks would still benefit from the rise in the post-deal price of the debt in the secondary market. Mechanisms were thus needed to prevent free riding. The most notable is the "novation" clause. For example, the Mexican agreement of 1989 stated that the conversion of outstanding debt into new instruments constituted a new contract, supplanting the old one. This meant that a bank holding an old debt claim but refusing to exchange into one of the new instruments would have a lower priority in receiving payments from Mexico.

56. The results of the five DDSR agreements that were completed before the end of 1991 are shown in table 2. The agreements differed very significantly in the effective degree of debt reduction accorded to the debtor Governments. 19/ The table shows the debt-reduction equivalent of the easier terms of debt servicing plus the actual debt reduction agreed for each country. It also shows additions to each country's debt from new official loans planned specifically for purchasing enhancements to the debt instruments and the new money loans extended by the banks that took the new-money option, which were quite small relative to the debt and debt service reduction, except for the Philippines. Taken together, these items give the net debt reduction shown in the table. It is a generous measure of the net benefit of each agreement, as it excludes each country's use of its own reserves and already planned borrowing from multilateral institutions that were co-opted for debt enhancement purposes. In any event, measured this way, the total debt of Costa Rica fell $1 billion or slightly more than one fifth of its $4.6 billion debt before the agreement. As a percentage of total debt, this was the largest gain, while that of the Philippines - or more properly, phase I of the Philippines' two-part negotiation - was the smallest, as its debt fell only 2 per cent. The debt of Uruguay was brought down quite significantly, that of Mexico and Venezuela by smaller degrees.

Table 2. Results of agreements to reduce foreign bank debt of five developing countries a/

(Billions of United States dollars)

	Mexico	Philippines	Costa Rica	Venezuela	Uruguay
Pre-agreement debt (face value)					
Total	95.4	28.5	4.6	32.5	3.7
Eligible bank debt	47.2	6.6	1.6	19.0	1.6
Present value of debt reduction when deal made					
Debt and debt-service reduction agreed	14.2	1.3	1.1	4.4	0.8
Associated additional debt					
Official enhancements	3.7	0.1	0.2	0.7	0.1
"New money" from banks	1.0	0.7	-	1.2	0.1
Net debt reduction b/	9.4	0.5	1.0	2.6	0.6
Market value of eligible bank debt					
Pre-deal	17.0	2.6	0.2	7.0	0.9
Post-deal c/	17.7	3.1	0.2	9.6	0.7
Memorandum item					
Secondary market prices (per cent of face value)					
Pre-deal	36	40	12	37	56
Post-deal d/	52	52	39	61	74
Agreement equivalent e/	41	46	24	50	60

Source: Department of Economic and Social Development of the United Nations Secretariat, based on estimates of Stijn Claessens, Ishac Diwan and Eduardo Fernandez-Arias, "Recent experience with commercial bank debt reduction", World Bank, 1992.

a/ Countries having completed debt and debt-service reduction agreements by end-1991 (Philippines refers to phase I agreement).

b/ Calculation does not take account of official loans that would have been extended in any event but that were set aside for purposes of the agreement and thus were unavailable for other uses; nor does it include use of the country's own reserves for enhancements.

c/ Post-agreement debt as if all of it had the same debt-servicing schedule as pre-agreement debt (thus, excluding increase in market price from enhancements, but including new money at market price).

d/ Excluding increase in price associated with collateral and interest guarantee enhancements.

e/ Full market value of new claims minus face value of new money provided, expressed as a percentage of face value of eligible debt.

/...

57. The agreements were more similar, however, in the degree to which they were able to capture the discount on the debt for the debtor country. To measure this factor requires calculating an implicit secondary market price for a buy-back that would be equivalent to the negotiated DDSR package. The implicit buy-back price is calculated as the total market value of newly created bank and bond claims except for the new money loans, divided by the face value of eligible commercial bank debt. The numerator shows, in effect, the value at which old debt was exchanged in the deal. The expression as a whole thus shows the implicit average discount of the DDSR.

58. As expected, the post-deal price was higher than the pre-deal price in all the DDSR agreements. Had the negotiations followed the earlier concerted approach without a menu of options for the creditors, the settlement price would have had to be relatively close to the post-deal price to accommodate the banks with the highest reservation prices, if all the banks were to be included without any discrimination. However, the pre-deal price set a floor to the settlement price if no banks were to see themselves worse off after the deal than before it. Table 2 shows that the implicit agreement price was generally about half way between the post-deal and pre-deal prices, although the Mexican and Uruguayan settlements were closer to the pre-deal prices. Therefore, each of the deals shows some features of a concerted agreement with some degree of discrimination among the different interests of the creditor banks.

59. There is a sense, however, in which these countries were victims of the success of their agreements. As noted above, the post-deal prices were higher than pre-deal prices in all cases, indicating the financial markets' assessment that the debt-servicing capacity of the countries had risen. If the market is correct, then the debt-servicing flow from the post-deal debt is expected to be quite close to the debt-servicing flow that the country would have paid on the larger outstanding debt before the deal. In all cases except that of Uruguay, the post-deal debt level exceeds the pre-deal level, indicating that the market expects more debt servicing to be paid on the remaining debt than would have been paid before, although the differences are not large. And in all the cases, the calculation excludes the effect of having added to official debt to finance the enhancements to the bank debt.

60. In other words, the expected debt-servicing cash flow after the DDSR agreements is not very different and in most cases even larger than it was before the agreement was reached. This is not necessarily a bad result. First, because it is a voluntary scheme - the only type that policy makers countenanced - the banks were not expected to accept a situation that they perceived to be worse than the one they saw themselves in before the deal was made. Second, in some cases the pre-deal expectation of debt servicing was very much affected by the growth of arrears on interest as well as principal payments. The agreements essentially validated what the Governments and the markets had been saying, namely, the countries could not and would not service the outstanding claims against them. Arrears signalled this fact in a sometimes dramatic and sometimes quiet way. 20/ But arrears were never intended to be a solution to the debt problem.

B. Negotiations with official creditors

61. It might be assumed that all the careful crafting of incentives and penalties to encourage banks to participate voluntarily in multilateral debt restructuring exercises would be unnecessary when it came to designing policy for restructuring debt owed to official creditors. In fact, however, discussions among major creditor countries on terms for restructuring intergovernmental debt have been protracted and difficult and the concessions accorded to the debtors have until recently been quite modest. Every year since 1983, from 15 to 24 developing countries have rescheduled their debt through the Paris Club, most in a sequence of relatively short-term agreements. 21/

62. Indeed, creditor participants in the Paris Club often seem to act more like representatives of financial enterprises than Governments. The analogy is not complete. The primary obligation of managers of commercial banks is to make profits for their shareholders. The primary aim of creditor representatives in the Paris Club seems to be to minimize financial losses of their Governments. Although Paris Club negotiations embrace direct government loans, including official development assistance (ODA) credits, much of the portfolio of claims consists of export credits that their Governments guaranteed and on which the debtor defaulted. There is an especially strong incentive to collect on these loans. The reason is what analysts call "moral hazard" and means that the last thing a guarantee agency wants is for borrowers to believe that default is not difficult and expensive. 22/

63. It is thus not surprising that the Paris Club insisted on only rescheduling loans - and on commercial terms - long after commercial banks were recognizing the need to forego permanently some debt servicing by the same borrowers. Commercial bankers regret losses and try to avoid them, but will turn their attention to other activities in search of profits rather than dwell indefinitely on collecting on the losses. In the terminology of the previous section, they have lower "reservation prices" than Paris Club creditors.

64. Sometimes, however, it appears that normal negotiating goals in the Paris Club are superseded. It is, after all, an intergovernmental forum and Governments can choose it as a vehicle for foreign policy. Financial transfers are among the most common tools of policy and foreign indebtedness, particularly of poor countries to rich countries, has high political visibility. Thus, unlike bank presidents who would be hard pressed to explain losses to their boards of directors, heads of Government could extend financial concessions to foreign Governments as a political gesture. Accepting the foreign policy, legislators would approve the gesture and voters would accept it.

65. The relevance of this distinction was made most clear in 1991 when, quickly breaking with painstakingly negotiated terms for multilateral relief of official debt-servicing obligations, the industrial countries offered far deeper debt-relief concessions to Egypt and Poland than they had made

available to the poorest nations in the world. The political importance of extending major financial assistance to these two nations was manifest at the time: the first as part of the global coalition to undo Iraq's occupation of Kuwait and the second as support for a leading edge of the economic and political revolution that swept across eastern Europe and the former Union of Soviet Socialist Republics.

66. In earlier years, Paris Club representatives had argued that the proper mechanism for multilateral official assistance to countries lay elsewhere, in aid consortia. 23/ The Paris Club was supposed to help Governments through temporary liquidity difficulties. But as the commercial banks came to realize, several countries had become insolvent. In agreeing to accord a measure of debt reduction to low-income countries, Paris Club creditors also acknowledged that neither these debtor Governments nor their aid agencies in the creditor countries could or would allocate the resources from their budgets year in and year out to fully service their credits.

67. The approach the Paris Club eventually took to improving the terms of debt restructuring bears some similarity to that taken in the current international strategy on commercial bank debt. Thus, in order to gain the advantages of a concerted agreement with discrimination among creditors - to take advantage of the creditors' different "reservation prices" - the Paris Club has offered its members a menu of restructuring options in the treatment of the debt of selected countries. In comparison with the DDSR agreements, however, the menu is largely pre-set and the variables left to negotiation are quite limited.

68. Whereas the major industrialized countries insisted upon a case-by-case approach in which each debtor Government negotiated a package with a committee representing all its commercial banks, the Paris Club creditors first negotiated among themselves the basic terms of relief they would apply to specified groups of countries and then decided for which set of terms individual countries were eligible. The only exceptions are ones in which political considerations predominated, as in the cases of Egypt and Poland, and in the agreement for Peru in 1991, in which debt that is usually ineligible for rescheduling was included in the package as part of the international effort to assist the new Peruvian Government to re-establish effective working relations with the multilateral financial community.

69. The most concessional of the three standard treatments currently available from the Paris Club has been named the "enhanced concessional treatment for the poorest and most indebted countries". 24/ The new terms have been available since the end of last year and as of mid-1992, six countries have benefited from them: Benin, Bolivia, Nicaragua, Togo, Uganda and the United Republic of Tanzania. 25/

70. Calculations for a debtor country under the enhanced terms begin by looking at the scheduled debt servicing of eligible non-concessional debt over a set period, the "consolidation period", which might be one to three years long. The analysis estimates what that payment stream would be worth

today, its "net present value". 26/ The menu then offers three ways to give relief so as to halve this amount plus accumulated arrears. Creditors can choose to write off half the total and reschedule the rest with a new loan repayable over 23 years (with a six-year grace period) paying market interest rates, or creditors can either reschedule the entire amount over 23 years at a concessional interest rate or choose a particular combination of the two approaches, as long as the result would be financially the same in the sense of halving the total present value. ODA debt will be rescheduled over 30 years, with no principal due for 12 years and at an interest rate at least as favourable as the original one.

71. However, certain creditors have not agreed to grant the enhanced concessional terms and the Club is allowing them to apply the treatment they used before for low-income countries (the "Toronto terms"). This requires that the arrears plus debt-servicing due during the consolidation period be rescheduled over 25 years at market interest rates, with no principal due for 14 years. These terms are meant for the creditor Governments with the higher "reservation prices". It gives no reduction in net present value, but it gives an unusually long grace period.

72. The Paris Club's second treatment is the "Houston terms", named after the 1990 summit meeting of the seven major industrialized countries in which special treatment was proposed for lower-middle income countries. These terms give no reduction in present value, no write-off of any of the debt. Rather, debt servicing during the consolidation period is rescheduled over 15 years with an 8-year grace period for non-concessional debt and 20 years with a 10-year grace period for ODA debt. In addition, a part of the debt can be swapped in debt-for-nature, debt-for-aid, debt-for-equity or other local currency uses, an option that is now also extended to low-income countries.

73. Finally, for developing countries that do not fall into either special category, the standard Paris Club terms apply, namely, debt-servicing due during the consolidation period is rescheduled over 10 years with a 5-year grace period on principal payments, although Brazil was accorded a maturity of 13.5 years in its agreement this year.

74. It has been standard practice in Paris Club agreements to reschedule debt servicing in a sequence of "consolidation periods", whose average length rose only from 1 to 1.5 years in the 1980s. Except for the cases of Egypt and Poland, which included all the debt servicing due on all the eligible debt, the consolidation periods in agreements signed in the 1990s are not being extended more than a year or so beyond earlier practice. The individual agreements are thus not expected to resolve completely all official debt-servicing difficulties, unlike the DDSR agreements which are meant to be the final round in commercial bank rescheduling.

75. There is a requirement under the Paris Club that debtors undergo an internationally supported adjustment programme, and the repeated returns to the Club for new agreements give a mechanism for continued linking of debt restructuring and adjustment policy. The consequence has been, however, that

debtor government officials are spending inordinate amounts of time renegotiating their debt, beginning one Paris Club round as another finishes. 27/ In this regard, one clause in the new, enhanced treatment for low-income countries holds out an interesting possibility, as it specifies that the creditors would consider "the matter of the stock of debt" after a period of three or four years. This means that an agreement might then be negotiated covering the entire outstanding stock of debt, as has become a common practice in the restructuring of commercial bank debt.

IV. CONCLUSIONS

76. After a decade of international debt crisis, the outlook is finally improving, in particular, for the middle income countries. The net transfer of financial resources has turned positive on the strength of private flows to several of the largest heavily indebted countries, but the net transfer of financial resources to low-income countries remains stagnant. Official as well as private creditors have acknowledged the existence of a debt overhang requiring debt reduction in various circumstances. Domestic adjustment has prepared the ground for more sustainable growth in many developing countries.

77. It is necessary, however, not to let the desire for release from the international debt crisis cloud the perceptions of what has and has not yet been accomplished. In the arena of debt negotiations itself, there is now a greater variety of policy tools, menus and treatments than ever before available to debt negotiators. The number of countries to have benefited from the new terms, however, remains quite limited. Indeed, the countries that have not yet settled their debt-servicing arrangements need to be alert to the full range of options utilized in other cases and the possibilities for additional "financial engineering". Considerable work thus remains in the international debt policy arena.

78. Moreover, there is no formal mechanism to restructure the debt owed to multilateral creditors. 28/ When countries cannot service such debt on a timely basis, they accumulate arrears. Ten countries had obligations overdue six months or more to the IMF that totalled $4.5 billion at the end of fiscal year 1991/92, which was more than 12 per cent of total Fund credit and loans outstanding. This was despite efforts, particularly on the part of four countries, to settle obligations as they fall due and undertake adjustment programmes that could lead to the settlement of their arrears. At the World Bank, six countries were in non-accrual status due to their outstanding arrears at the end of fiscal 1991/92. They accounted for 2 per cent of the Bank's outstanding loans, an improvement over the previous year when eight countries were in non-accrual status and owed 3 per cent of the Bank's loans. 29/ This is especially important as the IMF, the World Bank and the regional development banks have increasingly become the chief sources of credit for many countries. The severely indebted low-income countries already paid a third of their debt servicing to these institutions in 1990; it was under one fifth in 1980. 30/

79. It is not yet clear if the DDSR debt agreements will end the cycles of debt negotiations for the participating countries, which they are supposed to do. They have indeed raised expectations in the financial community about the future debt-servicing prospects of the heavily indebted middle-income countries. But the new debt instruments do not yet trade in the secondary market at par; i.e., the market still sees a significant possibility of debt-servicing difficulties ahead. If they emerge, the situation will indeed be difficult, since it is not clear how a debt restructuring with private creditors could be negotiated, if at all, with a large, dispersed number of bondholders. In this regard, the risk seems to have been passed to the official creditors.

80. Finally, a substantial part of the new capital inflows to the heavily indebted countries appears to be highly speculative funds. Financial markets in some of these countries have burgeoned, while remaining extremely volatile. Moreover, the countries that regained market access are none the less considered high-risk credits and their borrowing instruments entail interest premiums, significant collateral or other special arrangements. Especially since the net international cash flow from debt agreements did not improve in the cases of the countries most indebted to foreign commercial banks, the quantity and quality of new flows is extremely important. Indeed, it is a concern that the inflow of funds has only to a limited degree thus far found its way into higher aggregate investment in new plant and equipment and the rate of growth of output has remained sluggish.

Notes

1/ Additional details and related analyses may be found in concurrent reports prepared for the Assembly on the net transfer of resources of developing countries (A/47/404), and on the implementation of the International Development Strategy for the Fourth United Nations Development Decade (A/47/270) and on the Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries (A/47/377).

2/ For the definition of capital-importing developing countries, see World Economic Survey, 1992 (United Nations publication, Sales No. E.92.II.C.1).

3/ For statistical purposes, the region is defined to exclude Nigeria and South Africa.

4/ Swaps to support other assistance programmes have also continued; for example, Harvard University arranged a debt-for-education swap for Mexico in 1991, after having made a similar arrangement for Ecuador in 1990.

5/ United Nations publication, Sales No. E.92.II.C.1, p. 217.

Notes (continued)

6/ The work that most galvanized world opinion on this was Andrea Cornia, Richard Jolly and Francis Stewart, Adjustment with a Human Face, 2 vols. (New York: Oxford University Press for UNICEF, 1987). A continuing need to focus on the issue is argued, for example, in the report of the Committee for Development Planning on its twenty-eighth session, Official Records of the Economic and Social Council, 1992, Supplement No. 7 (E/1992/27), paras. 155-161.

7/ See World Economic Outlook (Washington, D.C.: IMF, May 1992), pp. 23-25 and 72-77.

8/ On these and other cases, see Christian Morrison, ed., Adjustment and Equity in Developing Countries, 8 vols. (Paris: Organisation for Economic Cooperation and Development, 1992).

9/ See "Policies and activities relating to assistance in the eradication of poverty and support to vulnerable groups, including assistance during the implementation of structural adjustment programmes", report of the Secretary-General (E/1992/47), paras. 66-73.

10/ Data and estimates for Latin America and Africa in this section are drawn from the World Economic Survey, 1992.

11/ Based on data of IMF, International Financial Statistics, August 1992.

12/ See Global Economic Prospects and the Developing Countries (Washington, D.C.: World Bank, April 1992), p. 9.

13/ These were described in World Economic Survey, 1992, pp. 77-79.

14/ Argentina, Brazil, Costa Rica, Mexico, Nigeria, Philippines (phases I and II), Uruguay and Venezuela. The possibility of a DDSR arrangement was agreed by Morocco and its bank creditors in September 1990 as a follow-up to a conventional rescheduling at that time. In addition, Chile and its bankers agreed to a rescheduling in December 1990 that had a voluntary "new-money" feature that is in the spirit of the DDSR agreements.

15/ The main case in which the price would not rise is when the Government undertakes the buy-back with its own reserves, which would have otherwise served as informal collateral and earned interest (for a formal analysis of buy-backs, see Michael P. Dooley, "Buy-backs, debt-equity swaps, asset exchanges, and market prices of external debt", in Jacob Frenkel, Michael Dooley and Peter Wickham, eds., Analytical Issues in Debt (Washington, D.C.: International Monetary Fund, 1989), pp. 130-150).

Notes (continued)

16/ For a fuller discussion, see Jeremy Bulow and Kenneth Rogoff, "The buy-back boondoggle" and Jeffrey Sachs, "Comprehensive debt retirement: the Bolivian example" and associated commentary in Brookings Papers on Economic Activity, 1988, No. 2, pp. 675-715.

17/ On the latter, see United Nations Centre on Transnational Corporations, Transnational Banks and the External Indebtedness of Developing Countries: Impact of Regulatory Changes (United Nations publication, Sales No. E.92.II.A.10).

18/ Nevertheless, the market value of their old claims rises if the post-deal price exceeds the pre-deal price, which is the expected case. The point is that by extending new money loans, the reluctant banks are not completely free riders.

19/ The analysis and calculations presented here are drawn from Stijn Claessens, Ishac Diwan and Eduardo Fernandez-Arias, "Recent experience with commercial bank debt reduction", World Bank Policy, Research and External Affairs Working Paper, forthcoming.

20/ See Oscar Altimir and Robert Devlin, "An overview on debt moratoria in Latin America", Economic Commission for Latin America and the Caribbean, Working Paper No. 6 (June 1992).

21/ See World Economic Survey, 1992, p. 228.

22/ This can be contrasted with the treatment of ODA debt; i.e., over $11 billion of ODA debt owed by poorer developing countries have been unilaterally cancelled by the donors, initially under an agreement in UNCTAD (Trade and Development Board resolution 165 (S-IX) of 11 March 1978) and subsequently under the initiative of individual donors (data as reported by donors through October 1991; see World Bank, World Debt Tables, 1991-92 (Washington, D.C.: World Bank, December 1991), p. 27).

23/ See the discussion in World Bank, World Debt Tables, 1991-92, p. 66.

24/ This treatment resulted from a proposal made by the United Kingdom at a Commonwealth Finance Ministers' meeting in Trinidad and Tobago which, while not being adopted by the major creditor Governments, led to an agreement at the 1991 London Summit of the seven major industrial countries to improve upon the restructuring terms then available to low-income countries.

25/ The following discussion of Paris Club debt is largely based on material prepared in the UNCTAD secretariat for the 1992 Trade and Development Report.

Notes (continued)

26/ Net present value can be thought of as the amount of cash that the creditor would find equivalent to the assured stream of debt-servicing payments contracted. The calculation in this case takes no account of the possibility that the debtor will be unable to make all payments in a timely manner.

27/ The Paris Club process requires first that an "agreed minute" be negotiated between the debtor and the creditors meeting together and that the debtor then negotiate detailed bilateral agreements to implement the minute with each creditor.

28/ A programme has been developed to assist countries in arrears to the IMF to work down the arrears and accumulate rights to draw on the Fund as soon as the country returns to normal membership status; a parallel programme applies to arrears to the World Bank (see World Economic Survey, 1991, pp. 157-158).

29/ Based on information provided by IMF and World Bank.

30/ Data of World Bank, World Tables (see also G. K. Helleiner, "The IMF, the World Bank and Africa's adjustment and external debt problems: an unofficial view", World Development, vol. 20, No. 6 (June 1992), pp. 779-792).